RECORD TYPE: PRESIDENTIAL (NOTES MAIL)

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

CREATION DATE/TIME:11-MAY-1999 18:33:23.00

SUBJECT: CBO: no revenue boom this year

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

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

TEXT:
---------------------- Forwarded by Douglas W. Elmendorf/CEA/EOP on 05/11/99 06:33 PM ---------------------------

William G. Dauster
05/11/99 06:07:46 PM
Record Type: Record

To: Douglas W. Elmendorf/CEA/EOP
cc:
Subject: CBO: no revenue boom this year

---------------------- Forwarded by William G. Dauster/OPD/EOP on 05/11/99 06:07 PM ---------------------------

CHARLES KONIGSBERG
05/11/99 06:02:50 PM

Record Type: Record

To: See the distribution list at the bottom of this message
cc:
Subject: CBO: no revenue boom this year

---------------------- Forwarded by Charles Konigsberg/OMB/EOP on 05/11/99 06:03 PM ---------------------------

No. 90
Tuesday May 11, 1999
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Tax, Budget & Accounting

U.S. Budget

Recent Revenue Boom Appears Over, CBO Official Tells Tax Symposium

Admitting his agency underestimated the amount of unanticipated tax revenue the strong U.S. economy generated for the last several years, a Congressional Budget Office tax analyst nevertheless predicted May 10 that the economic boom may be winding down and that the revenue surge it produced may be over.

"We think that the boom may already be starting to unwind," Thomas Woodward, CBO assistant director for tax analysis, told a National Tax Association symposium titled "Tax Policy in a Time of Surplus."

"We see some of the things in the cards already," Woodward said. "Corporate profits, which have been strong through much of this revenue boom, have already slowed significantly," he said. That could mean a reduction in big corporate bonuses and it could lead to a Wall Street slowdown, he said.

"If we see a significant slowdown in corporate profits, maybe eventually we'll see that eat into the stock market," he said.

Woodward said that while the views he expressed at the symposium are not official CBO positions, the budget agency's January 1999 updated economic forecast was "already projecting something that might be called ... a bust" in the future level of anticipated federal revenues compared to recent years. He said this "bust" was more of a leveling off of revenue collections compared to recent years, not a drop in receipts.

His conclusions about the future direction of the economy are contained in an unreleased report, What Made Receipts Boom and When Will They Go Bust, which is to be published in the September issue of the National Tax Journal. Woodward, who co-authored the report with fellow CBO analysts David Weiner and Richard Kasten, detailed the findings of his report at the symposium.

No More April Surprises

Federal revenue grew faster than the economy for five consecutive years and "a lot of this [revenue] growth came as a surprise" to CBO and others, Woodward said. The CBO for the last three years underestimated the amount of federal revenue that would be collected each year, he said.

The bulk of the error was in estimating how much in taxes the surging economy would produce, Woodward said, adding that "virtually all" of the annual error CBO made came from underestimating the amount of individual income tax payments that were collected.

The strong growth in tax receipts continued into last year but abated this year when, for the first time in three years, the CBO did not announce an "April surprise" of unanticipated tax revenues, Woodward said. The CBO said May 5 that, based on tax receipts through the end of April, it would not revise its January budget and surplus forecasts.

The growth in capital gains realizations and in retirement income accounts for much of the additional income growth during the last few years, Woodward said. There also has been an increase in the tax rate on taxable income, which accounts for more than half of the increase in tax liabilities relative to the gross domestic product, he said.

Beyond that, a shift in income toward higher income people, who pay higher tax rates, also contributed to the surge in revenues in recent years, Woodward said. CBO believes tax liabilities will not continue to grow relative to GDP and the economy will have to slow down at some point, Woodward said.

"Some of these things we think will slow down because we think they have to slow down," Woodward said about the elements that have contributed to unanticipated revenue levels in the last few years.

By Bud Newman

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RECORD TYPE: PRESIDENTIAL (NOTES MAIL)

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

CREATION DATE/TIME:12-MAY-1999 15:19:50.00

SUBJECT: Ministerial

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

TEXT:
Hi Janet,

I've spoken with John Weeks and Martine Durand about the OECD Ministerial, and I think I've got a relatively clear picture of what'll be going on.

The first day, May 26, will be spent partly meeting with nonmembers in the morning, followed by an economics and finance ministers' meeting in the afternoon. (All this is spelled out in John Weeks's fax to us dated today; Alice received a copy for you.)

Nonmembers. John suggests you (ie, you, me, Treasury, and the kitchen sink) have two interventions of about 2 minutes each prepared for the nonmembers' issues. The reason there should be two is because there are two distinct "topics," mostly distinguished by the fact that one occurs during lunch, really.

The general idea is to discuss globalization, remaining integrated and open to trade and investment (or not), etc, rather than the general macroeconomic situation per se.

John feels that the best source of information on what issues we should push is the Mission itself (and perhaps the OECD desk at State), rather than anybody else.

Economics and finance. Here, Martine instructs that you'll present the discussion of EPC topics --- basically repeating the same points we had in the document she and I and that OECD fellow John had written up on the EPC's Thursday night. That'll happen second, after a short introduction by somebody else.

Following that, you'll rejoin the U.S. delegation, and John has suggested that you prepare two 2-minute, page-and-a-half interventions, because again there are two topics. One is the general macroeconomic situation and policy requirements. The second is on jobs and employment. Sound familiar? It's basically the same as EPC's agenda.

John feels that on the latter topic --- jobs --- the Mission again is the best source of information on what we should say. On the macroeconomic situation, however, John suggests that we talk directly to Treasury.

(Trade ministers). The next day, May 27, seems to be completely off your agenda, since Ambassador Barshefsky is going, and it's on the next WTO round, I think.

The delegation. As I said, the Mission seems convinced that Barshefsky is attending, and according to John Weeks, she's leading the delegation. It sounds also like David Aaron, apparently an under-secretary of Commerce, will attend. On the Treasury front, I've inquired and they don't seem to know yet whether anyone will attend.

The bottom line seems to be that we should (A) get the "finalized" draft of the EPC Chair's remarks from Martine (they're on the way, she told me); (B) talk to Treasury about a second statement on essentially the same macro issues; and (C) wait for the Mission to provide the lead on the three other topics.

This leaves me a little uneasy, since we're relying on the Mission for a large chunk of the stuff. On a side note, John told me that Gurria, the Mexican finance minister and the chair of this Ministerial, wanted a more informal discussion with nonmembers. I told John that we'd still want to have something prepared in advance on those topics anyway, and he agreed.

For some reason, Thursday and Friday this week are holidays for all OECD and Mission personnel, I understand. So next week will be when everything hits the fan. :)

-Ryan

RECORD TYPE: PRESIDENTIAL (NOTES MAIL)

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

CREATION DATE/TIME:12-MAY-1999 16:07:48.00

SUBJECT: Japanese request for meeting during Ministerial

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

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

TEXT:
Hi Janet,

Please find enclosed a Japanese request transmitted through the U.S.
Mission for a meeting with you during the Ministerial on environmental
issues.

Best,

-Ryan

---------------------- Forwarded by Ryan D. Edwards/CEA/EOP on 05/12/99
04:05 PM ---------------------------

"Parker, Suzanne K" <ParkerSK @ state.gov>
05/12/99 04:34:04 AM
Record Type: Record

To: Ryan D. Edwards/CEA/EOP
cc: "Weeks, John L" <WeeksJL @ state.gov>, "Otto, Stan A" <OttoSA2 @
state.gov>
Subject: Bilateral for Janet Yellen

Hi Ryan:

Stan Otto informed me that Mr. Sakaiya, Environmental Minister in Japan
would like to have a bilateral meeting with Janet Yellen while she is here
for the OECD Ministerial. I understand Janet Yellen had met Mr. Sakaiya
before at the CEA. Stan assumes topics would be climate change,
sustainable
development, and other issues he might want to discuss.

Would Dr. Yellen like us to schedule a bilateral with Mr. Sakaiya while she
is here for OECD Ministerial Meetings?

We have had difficulty receiving e-mails from Washington. Could you respond
to this message by e-mail, but also give me a call so I know you received this e-mail?
Many thanks,
Sue

RECORD TYPE: PRESIDENTIAL (NOTES MAIL)

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

CREATION DATE/TIME:12-MAY-1999 10:24:21.00

SUBJECT: Washington OECD May 20 EDRC Rollout

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

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

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

TEXT:
Hi Janet,

(Doug: I'm cc:ing you since it might be good for you to have input into what Janet says during the EDRC rollout press conference on aging populations and Social Security --- the special chapter.)

The exact starting time of events on May 20 keeps shifting around at the whim of the National Press Club, but currently we're scheduled for a 1:00pm start, which last I heard (five minutes ago) is likely to become a 2:00pm start. I'll inform Alice as soon as one or the other is finalized.

The structure of the press conference is flexible. What apparently was done last year, which can serve as a starting point for what we do this year, was the following:

1:00 - 1:15 Richard Herd (OECD) summarizes
the key points of the survey

1:15 - 1:25 Janet Yellen makes comments on
the survey findings

1:25 - 1:45 Q&A

Richard Herd is currently out of the office until Monday, but we'll obviously want to coordinate with him to some degree.

Highlights of the survey that immediately spring to my mind are: (A) the healthy macroeconomy (basically another version of chapter 2 of the ERP); (B) the outlook for fiscal policy and the consensus for paying down the debt; leading into (C) the consequences of an aging population in terms of current policy and the outlook for reform.

Obviously, there's the whole structural policy chapter as well, and perhaps we could ask Howard to write up something briefly on telecom or something.

I think the real meat of the discussion is squarely in aging populations, though.

-Ryan

RECORD TYPE: PRESIDENTIAL (NOTES MAIL)

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

CREATION DATE/TIME:13-MAY-1999 20:37:26.00

SUBJECT: Speech

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

TEXT:
Attached is a speech I gave a few months ago on the economic performance and Administration policy. Perhaps it could be adapted to include material on women.=================== ATTACHMENT 1 ===================
ATT CREATION TIME/DATE: 0 00:00:00.00

TEXT:
Unable to convert ARMS_EXT:[ATTACH.D51]ARMS24031674T.136 to ASCII,
The following is a HEX DUMP:

The 1998 Economic Report of the President

Dr. Janet Yellen
Chairman, President's Council of Economic Advisers
National Economics Club
February 25, 1999

Thank you. It is a pleasure to be here. I appreciate your invitation to talk today about the *Economic Report of the President,* and to discuss the outlook for the American economy. As you may know, the Employment Act of 1946, which created the Council of Economic Advisers, requires the President to submit an *Economic Report* to the Congress each year. Preparation of this report is a central function of the Council of Economic Advisers, and it is always worthwhile endeavor because it gives us a chance to reflect in an organized way on economic developments in the American and world economy and to explain the economic logic of the Administration's agenda.

In addition to giving us the responsibility for producing an annual report, the Employment Act of 1946, together with its later amendments, also gave the Federal government responsibility for stabilizing short-run economic fluctuations, promoting balanced and noninflationary economic growth, and fostering low unemployment. One purpose of the *Economic Report* is to tell Congress whether we have met those responsibilities. Last year was a year for baseball home-run records, and it was also a year for economic records. We were especially happy to be able to report this year--the fifty-third year after the Act-- we achieved the longest peacetime economic expansion on record—and the records go back to 1854. In fact, that's why we chose a red cover for this year's *Economic Report* -- to symbolize our Nation's "red hot economy."

In the remainder of my remarks I would like to focus in greater detail on the characteristics of this extraordinary expansion, and discuss the outlook going forward. I want to particularly emphasize one of the themes in this year's Report: that the strong labor market we are now enjoying is producing benefits, particularly for groups that have not seen much economic progress for a long time. Finally, I'd like to briefly discuss two longer-term economic challenges which we ought to address now: the need to prepare our nation for the seismic demographic shift which is underway; and the necessity of implementing improvements in the architecture of the international financial system to make it less crisis prone while preserving the benefits of outward-looking trade and investment policies.

STATE OF THE ECONOMY

Let me begin by saying a bit about the state of the U.S. economy. In our view, our Nation's economy is the strongest it has been in a generation. In 1998, growth was impressive, and job creation was vigorous while inflation declined. Real GDP grew 3.9 percent. Nonagricultural jobs increased by about 2.9 million during the year, and the average unemployment rate for the year dropped to 4.5 percent, its lowest level since 1969. The consumer price index rose by only 1.6 percent, its smallest increase since 1964, and other measures of inflation were even more muted.

As you all know, this year the Federal budget moved strongly into surplus. In the 1992 fiscal year the budget deficit was $290 billion and expected to rise further with no change in policy. But beginning in 1993, the deficit began to decline steadily as a consequence of a shift to fiscal discipline. In 1998, the budget *surplus* was $69 billion, the largest surplus as a share of

GDP since 1957, and surpluses are projected well into the future: the Administration now projects surpluses in the unified Federal budget amounting to about $4.5 trillion over the next 15 years. I will return to the budget and the use of those surpluses to address demographic challenges in a few minutes.

The current economic expansion is only the third on record that has lasted at least 7 years. This year's report puts the expansion in its historical context by comparing it with the other two long expansions--the 106-month long expansion of the 1960s (the longest in peace or war) and the 92-month long expansion of the 1980s. Judged in terms of overall economic performance this expansion has been not only long but excellent--especially with respect to inflation and unemployment. By this time in the expansion of the 1960s, for example, inflation was rising sharply and was much higher than now, at about 5%. In the 80s expansion, inflation was also rising at this stage and had reached 5%. By contrast, inflation now is much lower and has been coming down. Since the need to combat high or rising inflation is what typically brings an expansion to an end, this greatly raises the prospects for a continuing expansion. The combination of low inflation and low unemployment is particularly remarkable and shatters long held views and simple textbook theories about the possibility of combining low unemployment and inflation. In fact, the misery index, which is the sum of inflation and unemployment, is lower at this stage of the current expansion than in either the expansion of the 60s or the 80s.

This is also an expansion which is investment-driven--to a far greater extent than in either of the other two long expansions. This investment is contributing to improvements in productivity and future growth and it is working to hold inflation down. Of course, it didn't occur by accident --it's the consequence of fiscal discipline and reflects a conscious choice to shift the policy mix toward a tighter fiscal policy coupled with a lower interest rate, accommodative monetary policy to stimulate investment and spur economic growth.

The continuing strong economic performance in 1998 is all the more remarkable because it took place at a time of considerable stress to the world economy. A third of all world economies were in outright recession or experiencing markedly slower growth by late 1998. After growing at 4.2% in 1997, world economic growth slowed to an estimated 2.2 percent in 1998, a pace comparable to the growth rates registered during the pronounced world slowdowns of 1974-75, 1980-83, and 1990-91. Our trade deficit rose and exports declined, particularly to countries in East Asia, producing a drag on economic growth and inflicting hardship on some sectors of the U.S. economy. The international environment remains exceptionally risky, with the prospects for growth in Europe, for a recovery Japan and for a pickup in activity in crisis afflicted countries highly uncertain. Even so, we believe that the U.S. economy has entered 1999 on course to continue growing and the chances are good that next year at this time we will be on the verge of marking the longest economic expansion—whether in peace or war—ever.

It's traditional for *The Economic Report* to present the Administration's economic forecast and to discuss its logic and I'd like to spend a few minutes reviewing it. The main purpose of the Administration economic forecast is for use in the preparation of our budget. This Administration consciously decided back in 1993 to establish a reputation for using credible forecasts so that, budget balancing efforts--and now proposals to use the emerging budget surpluses--would not be based on rosy scenarios. This means that, as we go about making our forecast, we would prefer to err on the conservative side. Our forecast for a projection period extending through 2007 looks for a continuation of the economic expansion with further employment and real wage growth, but with GDP projected to grow at a much slower, 2.0% rate on average over the next 3 years in comparison with the roughly 3.9% average pace of the last three years. We project that unemployment will edge up slightly. We also anticipate that the CPI will rise at a 2.3% annual rate next year and thereafter--close to the increase in the core CPI over the past year. This reflects our expectation that some of the special factors, including plunging oil and import prices, which depressed inflation this year will contribute less in containing inflation next year and thereafter. After 2001, we project that real GDP growth will resume growth at our estimate of trend--2.4%, and the unemployment rate is projected to stabilize at 5.3%, of our working estimate of NAIRU, the unemployment rate consistent with stable inflation over the longer term.

Our forecast is similar to CBO, the Blue Chip, and other private forecasts, although perhaps a touch on the conservative side in its assumptions about the pace of sustainable growth. A natural question is why we forecast a slowdown in growth when the extent of momentum in domestic demand has been extraordinary and we ended the year with GDP growing at a stunning 5.6% pace in the fourth quarter. Our forecast of more moderate growth going forward reflects our view that several components of domestic demand may be poised to grow at slower rates. In particular, consumption, which constitutes two-thirds of output, has been growing well in excess of income, so that the personal saving rate has declined to zero. In our view, this largely reflects stock-market gains. Unless the stock market continues to surge, the impetus from wealth on consumption is likely to wane, so that consumption will moderate to match the growth of income. As for business investment, slowing consumption growth, coupled with a capacity utilization rate which is now below its historical average, may exert some restraint on the demand for new investment goods. The past year's boom in housing starts reflects strong income gains and the impact of lower mortgage rates, but it has elevated housing starts well above their demographic fundamentals. We expect some restraint going forward in this component of demand as well.

One of the key questions in preparing the forecast concerns the trend pace of productivity growth. The official measure of productivity in the nonfarm business sector has grown at about a 2% annual rate over the past 3 years, substantially above the 1.1% annual growth rate between the business cycle peaks of 1973 and 1990 and the 1.3% pace from 1973 thru 1998. Investment growth has been exceptional, and capital accumulation should work to boost productivity. However, cyclical factors also affect productivity. Productivity growth is usually slow during recessions, rapid in the middle of an expansion and tapers off in advance of the business cycle peak. Strong productivity growth over the last three years could reflect strong output growth. On the other hand, productivity has grown even faster than would be anticipated based on cyclical factors and it is perfectly possible that the growth rate of trend productivity has risen. The extraordinarily low rates of inflation as measured by the PCE and GDP price indexes combined with healthy profits also suggest faster productivity growth than our forecast assumes. In this sense, our productivity growth assumption is conservative and I can only hope that reality shows that we were wrong. Nothing matters more to living standards over the long run than the pace of productivity improvement and an increase in the trend pace of productivity of even a tenth or two is of enormous importance for the long-term outlook for real wages and per capita income.

THE BENEFITS OF A STRONG LABOR MARKET

Let me next turn to a topic which receives emphasis in this year's *Report,* namely the impact of a strong labor market on low-wage and minority workers. Our report presents clear evidence of improvements during the last few years of this expansion.

It was once commonly accepted that an economic expansion is a rising tide that lifts all boats, so that the most surefire way to alleviate poverty and help disadvantaged groups was to keep the economy expanding. However, in the late 1970s, a new, long-term trend toward widening inequality began to afflict the economy, most likely as a consequence of pervasive technological changes raising the demand for skilled labor and lowering the demand for unskilled workers. In addition, productivity growth declined substantially, for reasons that are still not well understood. During the expansion of the 1980's, real wages declined, particularly among less skilled men. During the current expansion, we saw real wages stagnate for the first five years of the expansion. However, this has finally become an expansion in which a rising tide is lifting all boats. American workers are enjoying direct and measurable progress and in the *Report,* we describe the CEA's analysis of real wage growth. Let me talk briefly about some of these findings:

Wage growth has been particularly strong for historically disadvantaged groups. After years of decline, the real wages of black men began to increase in 1993, and they have risen by 5.8 percent in the last 2 years (since 1996). Black women and Hispanic men and women have also experienced recent gains. The tight labor market of the 1990s appears to be helping even young minority workers, who suffered greater wage declines than others in the 1980s. In 1998 alone, the real wages of young black men aged 16-24 rose by 6.2 percent.

It is well known that less-skilled men have experienced long-term wage decline since the later 1970s. In 1998, real wages among men aged 20 and over who are high school dropouts rose by 7 percent. This was the first time since at least 1979 that their wages rose. In addition, real hourly wages for men at the 10th and 20th percentiles of the earnings distribution rose 6 percent since 1993.

Immigrants, too, are earning more. Mexican- and Central American-born immigrants -- who account for about 30 percent of new immigrants since 1980 -- have had real wage growth since 1995 of almost 7 percent for men and almost 4 percent for women.

It is too early to declare victory in reversing adverse long-term trends in wages for less skilled workers. In particular, it remains hard to know how much of this turnaround is due to particularly favorable business cycle conditions. Nor is this Administration taking the improvements for granted. First, it is committed to maintaining the macroeconomic stability that is a necessary condition for ensuring that all Americans participate in the country's growing prosperity. Second, the Administration continues to stress the importance of education and training policies that address the challenges of a changing economy and a changing society.

MAINTAINING FISCAL DISCIPLINE

Although this year's economic report concludes that our economy is strong and that the prospects for continued growth are excellent, we recognize that our Nation faces other, broader challenges as we move into the 21st century.

One of the key challenges we face is to prepare our nation to meet the needs of an aging population. The ratio of employed workers to retirees has fallen from about 5 to 1 in 1960 to 3-1/2 to 1 today. In only 30 years time, it will be just 2 to 1 and still falling. The same demographic effects that have impaired the finances of Social Security also impact Medicare and Medicaid.

As you know, in his State of the Union the President proposed a plan for how to use the currently projected unified budget surpluses and how to address the financial imbalance of the Social Security system. He proposed devoting 62% of the surpluses over the next 15 years--about $2.8 trillion with a small portion, about 1/4, devoted to equity purchases--to extend the solvency of the Social security system until 2055. Further reforms would be needed to achieve full 75 year actuarial balance, which is the most commonly used measure of financial soundness. Assuming that a solution for social security can be achieved, the President has also proposed using 15% of the projected surpluses for Medicare, ensuring the Medicare Trust Fund is secure for another 20 years. The President has emphasized the need to utilize the extra funding as part of a broad effort to strengthen the Medicare program. He also proposed creating a new system of universal savings accounts (USA Accounts) outside of Social Security with 12 percent of the surplus to help working Americans build wealth to meet their retirement needs--a way of strengthening the current pension system and helping Americans save. The government would provide an equal dollar contribution for most working individuals and provide matches for individual contributions with larger matches going to lower income workers. Finally, the President would reserve 11 percent of the projected surpluses for military readiness and education and research.

Rather than commenting in detail on the President's Social Security plan, let me talk about the overall macroeconomic impact of this plan. For the nation as a whole, the central problem in coping with an aging population is to provide a high standard of living for both workers and retirees even though a smaller share of the population will be in the workforce. A natural solution is to make workers more productive by increasing investment in both physical and human capital, which will, in turn, raise labor productivity. In doing so, we can boost the size of the total economic pie, which is the prerequisite to meeting the retirement costs of the baby boom generation without unduly burdening future workers. The key to accomplishing this is to increase national saving, a goal to which continued fiscal discipline would contribute. National saving increased from 3.1 percent of gross domestic product in 1992 to 6.7 percent in the first three quarters of 1998, but the improvement is accounted for entirely by the elimination of the federal budget deficit, as private saving actually declined relative to total output with the personal saving rate hitting zero in the last quarter of the year. The framework offered by the President for the use of emerging budget surpluses would dramatically increase national saving. Evaluated from a macroeconomic perspective--from the perspective of national savings--this plan saves, in essence, between 77 and 89 percent of the projected surpluses, depending on one's evaluation of the saving impact of the USA accounts. The transfers to Social Security and Medicare amount to 77 percent of the federal budget and about 2 percent of GDP, and they are pure additions to national saving. The USA accounts amount to 12 percent of the unified budget surpluses and could be viewed as a tax cut that is highly likely to add to personal saving. Only 11 percent of the surpluses are devoted to additional government spending.

Dedicating the surpluses to Social Security and Medicare serves two purposes. First, it helps to lock in the surpluses so they are not used for tax cuts or wasteful spending. Second, it gives these critical programs a "first call" on the benefits of our fiscal discipline. And these benefits will be large.

This is a fiscally conservative, pro-growth plan that comes close in its macroeconomic impact to a plan of simply paying off debt. Publicly held debt is projected to fall from 44 percent of GDP today to about 7 percent in 2014. That would represent the smallest burden of government debt on the economy since the United States entered World War I in 1917. In addition, some of the surpluses will be used to purchase equities, which will represent an asset of the government. The dramatic decline in national debt would increase private capital investment, keep interest rates low or drive them lower, raise future national income, free up government resources by reducing debt servicing costs and fuel economic growth. We have estimated, for example, that in comparison with the exploding ratios of debt to GDP forecast back in 1993, the President's plan, which substitutes productive capital assets in private portfolios for unproductive debt would lower interest rates by about 2.5%. Even compared to a more optimistic baseline in which we assume that the political process would have achieved budget savings sufficient to hold the debt to GDP ratio at 50%, the President's plan lowers interest rates by 1-1.25% by 2014 and would raise GDP by 3.5-4.5%--a substantial increase in the size of the pie.

MEETING THE INTERNATIONAL CHALLENGE

Let me conclude by saying just a few words about the challenges we face on the international economic front and then stop and take your questions.

A first challenge for the United States is to insure that, at this time of economic fragility in so many regions, we do not build new walls of protectionism here, that could set off a dangerous chain reaction around the world, imperilling the world's prospects for growth while harming our own exporters and consumers. The crisis has taken a toll on some sectors in the United States, steel being notable example. The Administration is committed to vigorous enforcement of our trade laws to insure that American industries are not victimized by unfair trade. However we must also recognize that, as the crisis economies recover, their demand for U.S. goods and services will increase as well, once again fueling our own export growth.

Beyond keeping markets open, the Administration believes that a serious program of reform is needed to strengthen the underpinnings of international financial system to make it less crisis prone and to improve the mechanisms available for dealing with any crises that may nevertheless occur. Unfortunately, there is just no silver bullet--no simple solution that would guarantee countries the benefits of global capital flows while eliminating the risk that a crisis of confidence could once again result in the painful withdrawal of that access. Even so, international agreement is finally emerging on the steps that can and should be taken to strengthen the architecture of the financial system so that it is less crisis-prone going forward. The needed steps include measures to increase transparency and accountability in the operations of individual countries, of financial and corporate institutions and of the international financial institutions themselves to enhance the availability, relevance and reliability of information available for evaluating risk in lending. Reforms are also needed to strengthen the prudential supervision and regulation of banks and other domestic financial institutions: to create stronger incentives for borrowers and lenders to weigh risk and act with appropriate discipline, thereby reducing the odds of a crisis. Countries will need to reassess implicit and explicit government guarantees which create moral hazard and exacerbate risktaking, including the implicit promise of bailouts of corporations considered too big to fail, and semi-fixed exchange rate regimes which reduced the perceived riskiness of foreign currency exposure. Finally, measures are needed to improve creditor coordination in crises and to promote the orderly, cooperative and equitable resolution of international financial crises that may occur in the future. The United States is working intensively with key emerging markets, with other industrialized nations, and the relevant international organizations, to put in place the building blocks of this new architecture to ensure that the unprecedented growth, increase in welfare and opportunity experienced in the 50 years after the creation of the Bretton Woods system are maintained in the future.

RECORD TYPE: PRESIDENTIAL (NOTES MAIL)

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

CREATION DATE/TIME:13-MAY-1999 12:08:47.00

SUBJECT: Cleveland speech

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

TEXT:
I am scheduled to give a speech in Cleveland next week and was planning to use the same speech I gave a few weeks ago in Minneapolis, perhaps with a few modifications. Attached is a copy of that speech. Any comments or suggestions would be much appreciated.================== ATTACHMENT 1 ==================
ATT CREATION TIME/DATE: 0 00:00:00.00

TEXT:
Unable to convert ARMS_EXT:[ATTACH.D99]ARMS20317174Q.136 to ASCII,
The following is a HEX DUMP:

The Baby Boom Retires:
How the Coming 'Age Wave' Will Transform America and the World,
And What We Can Do About It Now

Dr. Janet L. Yellen
Chair, President's Council of Economic Advisers
Minnesota Meeting
April 27, 1999

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

Even so, a substantial portion of the Administration's economic agenda relates to longer term issues that will be critical to the performance of the U.S. and world economies not next week or next year, but instead decades or even further in the future. We have been able to elevate the priority of these longer term issues because the fundamentals of the U.S. economy are extremely sound.

Indeed, I believe that the Nation's economy is the strongest it has been in a generation. Real growth has been impressive, job creation robust, unemployment at its lowest rate level since 1969 and inflation at about its lowest level since 1964. The current economic expansion has now become the longest peacetime economic expansion on recordCand the records go back to 1854. In addition, the Federal budget moved strongly into surplus and surpluses of about $4.5 trillion are now projected over the next fifteen years.

It is in good economic times like these, that we have the luxury and the resources to anticipate problems ahead and prepare for them. Moreover, the cost of addressing longer term problems is usually lower when one has the foresight and discipline to act early than if one procrastinates. The most important issue on our long term policy agenda is the dramatic aging of the U.S. population. As you know, the President has put forward a number of principles for Social Security and Medicare reform, and he has proposed a specific framework for using the projected budget surpluses to help achieve reform. He has also presented related ideas for enhancing private saving and pensions.

I will discuss these proposals later in my talk, but I want to begin with the bigger picture. So I will start by describing the fundamental challenge that demographic change poses for our Nation, and indeed, for the rest of the developed world. Then I will explain the types of actions that we need to take now and in the coming years. These actions go beyond reforming Social Security and Medicare, and beyond the government altogether. They represent a difficult--but achievable--set of changes in our society that will prepare us for the coming "age wave."

The most striking measure of the aging of the United States is the falling ratio of employed workers to retirees. In 1960, there were about 5 workers per retiree; today there are 3-1/2 workers per retiree, and in only 30 years time, this ratio will be just 2 to 1 and still falling. The sources of this decline are clear. One factor is a reduction in birth rates compared to the postwar baby boom era. A second factor is increasing longevity. When the Social Security Act was passed in 1935, the life expectancy of a 65 year old American was about 13 years; today it is 18 years, almost 50 percent greater, and rising. A third factor is earlier retirements. In 1950, the average age for first receiving Social Security retirement benefits was 68; today it's 63.

Before we bemoan the economic challenges posed by these changes, it is worth emphasizing that they are mostly positive changes for our society. Declining birth rates, for example, primarily reflect evolving personal preferences combined with broader opportunities for women. And the marked increase in life expectancy during this century has resulted from important advances in the fields of medicine and public health, and it has produced a wonderful improvement in our lives. Evaluating the third factor I mentioned—the trend toward earlier retirement—is more complex. On one hand, we should be grateful that rising incomes have enabled people to enjoy more leisure at the end of life, as well as through shorter workdays and workweeks throughout their lives. But on the other hand, public policy may be inadvertently encouraging people to retire earlier than they otherwise would, and these implicit incentives need to be reconsidered. I will return to this issue later.

Let me make two other observations about the aging of the U.S. population. First, we are joined in this demographic transformation by virtually all of the other developed countries. Indeed, most of them will experience more dramatic changes in their demographic compositions than we will.

My second observation is that the rising elderly dependency ratio in the United States somewhat overstates the demographic challenge we face. People are generally dependent on the working population at both ends of their lives—when they are old, to be sure, but also when they are very young. And although *elderly* dependency will reach an unprecedented level in the next century, the drop in fertility rates since the baby boom has substantially diminished *youth* dependency. *Recent projections imply that the youth dependency ratio over the next 50 years will be just two-thirds of what it was in the 1960s and 1970s.* This decline in youth dependency will offset part of the burden of rising elderly dependency, at least from the point of view of the nation as a whole. From the point of view of the government, however, this offset is much smaller, because the government bears relatively less responsibility for the well-being of the young than of the elderly.

The economic effects of this age wave can be seen on three levels: 1) the Social Security and Medicare programs on which most people's attention is now focused; 2) the overall government budget, of which those programs are a part; and 3) the nation's long-term economic outlook. Let me address these in turn.

The most commonly used yardstick to measure the financial soundness of the Social Security system is the 75-year actuarial balance. The Social Security actuaries project that the current balance in the trust fund together with projected revenues over the next 75 years will be insufficient to fund the benefits promised under current law. By 2014, tax receipts are expected to fall short of benefits; by 2022 the shortfall is expected to exceed trust fund interest earnings, so the trust fund will begin to decline; and by 2034, the trust fund is expected to be depleted, after which time contributions would still be sufficient to pay about 70 percent of current law benefits. Of course, future taxes and benefits depend on a variety of economic and demographic factors that cannot be predicted perfectly, so the actual problem may be smaller or larger than we now believe. Nevertheless, the intermediate projections of the actuaries imply that the imbalance during the next 75 years amounts to over 2 percent of taxable payroll, or about 1 percent of GDP.

The Medicare system faces bigger problems, even with the improvement in the financial outlook reported last month. The 75-year actuarial imbalance in Medicare is now about 1-1/2 percent of payroll, somewhat smaller in absolute terms than the Social Security imbalance, but a much larger proportion of the current payroll taxes dedicated to the program. The trust fund is now projected to be insolvent by 2015—a marked improvement from last year's estimate of 2008, but still only a decade and a half away. Moreover, the long-term Medicare spending projections assume that the cost of covered health services grows much more slowly in the future than during the past several decades. This scenario implicitly incorporates either significant structural reform of the program or changes in the basic dynamic of U.S. health care spending.

We can also see the effects of the age wave in the long-term projections of the overall government budget. As you know, this year the Federal budget moved strongly into surplus. In the 1992 fiscal year the budget deficit was $290 billion and expected to rise further with no change in policy. But beginning in 1993, the deficit began to decline steadily as a consequence of three factors: difficult policy choices; strong economic growth, which itself is partly a result of the policy choices; and higher-than-expected tax revenue even after accounting for economic growth. This combination of sustained fiscal discipline and good fortune brought us a $69 billion budget *surplus* in 1998, the largest surplus as a share of GDP since 1957.

Perhaps more important, we now project that budget surpluses will grow and persist for years to come. Clearly, these projections are fraught with uncertainty, but they reveal some important trends. For one, Social Security and Medicare outlays are expected to rise from less than 7 percent of GDP today to nearly 12 percent of GDP by 2050, and to continue rising beyond that. In addition, federal spending in the Medicaid program is expected to rise from 1-1/4 percent of GDP today to 5 percent of GDP by 2050. People often think of Medicaid as financing health care for low-income *young* people, but it is also the major public support for long-term care for the elderly. Funding of nursing home care, home health care, and related services represents a significant share of current Medicaid spending, and spending in these areas is expected to grow rapidly as the population ages.

Yet, despite these increasing outlays, the budget is projected to remain in surplus until the 2050s. How is that possible? One critical factor is the assumption that we maintain a very tight constraint on discretionary spending. If we hold discretionary spending constant in real dollars, then, as both the population and real income per capita grow over time, discretionary spending will become a smaller share of total national income. However, reaching this objective will be difficult, as the current levels of defense and nondefense discretionary spending represent their smallest shares of GDP in thirty-five years. Another key factor in the persistent surpluses is the sharp projected drop in interest payments on the federal debt. The baseline projections that I have been describing assume no change in current tax or spending programs. Thus, they assume that the projected surpluses are realized, and those funds are used to pay off existing debt held by the public. This process creates a virtuous cycle: the paydown of debt reduces the future interest burden, which in turn increases the size of future surpluses and enables more debt to be paid down. The political challenge to achieving this outcome is to resist the temptation to dissipate the surpluses now, and I will return to this issue later.

Before turning to appropriate responses to the coming age wave, we need to recognize that demographic change has important implications not only for government programs and the government budget, but also for the economy more generally. Consider the sources of our total national income. National income depends on three basic factors: 1) our accumulated savings, or capital; 2) the number of workers and the education, training, and skills of those workers; and 3) the technology and management with which we combine these factors of production to generate output. The fundamental economic challenge posed by aging is that a smaller share of the population will be in the work force. In that situation, maintaining a high level of national income requires us to compensate for a smaller number of workers by having workers who are more highly skilled and by having a greater amount of accumulated savings. I will come back and discuss some concrete policy steps to raise savings, and also some steps that could encourage people to remain in the workforce longer. Let me just emphasize now that if we can boost the size of the total economic pie in the next century, we can meet the retirement costs of the baby boom generation without unduly burdening future workers.

So far I have merely described the demographic transformation we face and its likely effects on the government budget and the economy. This brings us to the critical question: how should we respond to this age wave? And, in particular, what can we do *now*?

Fundamentally, there are only two ways to deal with this challenge. First, we can make structural changes in our economy and in government programs to reduce the burden that an older population will impose. Possible changes of this sort include improving the efficiency of the health care system and not discouraging work by older people who want to keep working. The second way we can deal with this challenge is to set aside more resources today to meet the future burden. This means raising saving by households and by the government, so that total national wealth will be significantly higher in the future.

I think it is clear that we can best respond to the age wave by pursuing *both* of these approaches. If we do not save more now, then the structural changes that will be required down the road could be quite severe. This option would impose too large a burden on future workers and retirees. At the same time, if we make no structural changes, then the amount of extra saving that is required is extremely large. This option would impose too large a burden on current workers. Thus, fairness to all generations requires us to strike a balance between higher saving and structural reforms.

Let me emphasize that both of these responses to our aging population should begin now. Clearly, we cannot wait to raise our national saving until the baby boomers have retired. Just as individuals and families save for retirement while they are working, so the nation must bolster its savings before the need for those savings is upon us. Structural reforms also should begin now. Many reforms take time to implement, and even those that could be put in place immediately ought to be imposed gradually and with substantial lead time so that people can make adjustments in their own planning.

Now let me turn to the President's proposals, using the framework in the President's State of the Union address as my guide. I will begin with Social Security, then turn to Medicare, and conclude with the tax code.

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

The President has now proposed that 62 percent of the projected budget surpluses over the next 15 years should be devoted to Social Security. Most of those additional funds would be used to purchase Treasury bonds, the same assets that the Social Security system has invested in since its inception. But one-fifth of those funds would be invested in an index of private-sector equities, which should yield a higher rate of return. Together, the transfer of new money and the investment in equities would bridge more than half of Social Security's long-term funding gap. Achieving full actuarial balance will require tough choices about structural reform, and the President has called for a bipartisan process to make these choices. I would note that this proposal involves the combination of additional saving and structural reform that I discussed.

When considering possible structural reforms, one choice would be to encourage later retirement. As I mentioned before, the increasing share of life spent in retirement may be partly a reaction to public policies that encourage people to leave work before they otherwise would. For example, the combination of Social Security benefit and tax rules provides an incentive to retire early, even though a person's benefit is adjusted somewhat to reflect retirement before or after age 65. The President has proposed eliminating part of that incentive, which is the earnings test that reduces Social Security benefits paid to people still in the workforce. Examining proposals to raise the so-called "normal retirement age," which now stands at 65, should also be part of a public debate. The 1983 Social Security reforms set in motion a gradual increase to age 67, with the first step in this increase to occur next year, and the last step in 2022.

A majority of members of the 1994-96 Social Security Advisory Council recommended an acceleration of these planned increases and further increases thereafter to match the expected increase in longevity. In the interest of fairness, however, we must look closely at the likely impact of any changes in this area on those Americans in physically demanding jobs or with disabilities.

In his State of the Union address, the President proposed to devote another 15 percent of the projected budget surpluses to Medicare. He explained that, as with Social Security, resolving this program's long-term funding problem will require a combination of additional resources and structural reform. Unfortunately, the National Bipartisan Commission on the Future of Medicare held its final meeting last month without reaching consensus. The President believes that the Commission did valuable work, but he does not support the proposal offered by Senator Breaux and his colleagues.

Instead, the President has asked his advisors to draft a plan for Medicare reform that meets the following objectives. First, we should modernize Medicare and make it more competitive. By adopting the best management and clinical practices from the private sector, we can keep spending growth in line while maintaining high-quality services. Second, Medicare should continue to provide a guaranteed set of benefits without excessive new costs to beneficiaries. Third, we should use savings from these reforms to help fund a prescription drug benefit. Prescription drugs are a standard element of most health insurance plans for working Americans, but many Medicare beneficiaries have no coverage for their medications, or have inadequate or very expensive coverage. Lastly, we must dedicate part of the projected surpluses as general revenue transfers to Medicare. Structural reforms alone cannot meet the demographic and health challenges of the next century, but reforms combined with additional funding can do so.

The President proposed dedicating another 12 percent of the projected budget surpluses to a new system of universal savings accounts, dubbed "USA Accounts." The motivation for these accounts is straightforward: Social Security was never intended to be more than one leg of a three-legged retirement stool, with the other legs consisting of private pensions and household savings. So, along with strengthening Social Security, we need to increase private pension coverage and household savings. USA Accounts would substantially boost savings, especially for lower and middle income Americans who do less saving than higher income Americans, and receive much smaller incentives for saving through the tax code.

The Treasury Department estimates that almost two-thirds of all tax expenditures on pension plans go to families with incomes over $100,000. In contrast, the USA proposal would provide most of its benefits to the bulk of the population. Workers and their spouses in low- and moderate-income households would receive an automatic government contribution of $300 into their USA accounts. In addition, voluntary individual contributions would be matched by further government contributions at a rate that declines with income.

Let me conclude by discussing the most important macroeconomic effect of the President's State of the Union proposal, which is to dramatically increase national saving. National saving has already risen sharply during this Administration, from 3.1 percent of gross domestic product in 1992 to 6.6 percent in 1998. This improvement is accounted for entirely by the elimination of the federal budget deficit, as private saving actually declined relative to total output. Keeping the national saving rate high should be a central priority for fiscal policy in the coming decades, and the President's proposal meets this objective.

First, the transfers to Social Security and Medicare would allow the government to pay off most of its outstanding debt, with publicly held debt projected to fall from 44 percent of GDP today to about 7 percent in 2014. That would represent the smallest burden of government debt on the economy since the United States entered World War I in 1917. In addition, some of the surpluses would be used to purchase equities, which would represent an asset of the government. Both the bond buyback and the equity purchases would make room in private portfolios to hold more productive capital. This extra capital would increase private investment, keep interest rates low or drive them lower, fuel economic growth, and raise future national income. Moreover, the USA accounts represent a tax cut that is highly likely to add to personal saving. Altogether, the President's framework would save almost 90 percent of the projected budget surpluses, with the remaining small share used to meet pressing military and domestic needs. Compared to a policy that dissipated those surpluses on current spending or tax cuts, the President's proposal would substantially boost the size of the economic pie when the baby boom retires.

Finally, I want to end on an optimistic note. The age wave presents an important challenge to our government, our economy, and our nation. But the challenge can be met. We have the creativity and the resources to make the necessary adjustments in our public policy and in our lives. Both workers and retirees can enjoy higher standards of living in the next century than we enjoy today. Achieving this goal will be much easier, however, if we take action today. Thank you very much.

RECORD TYPE: PRESIDENTIAL (NOTES MAIL)

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

CREATION DATE/TIME:14-MAY-1999 14:33:40.00

SUBJECT:

TO: Ryan D. Edwards (CN=Ryan D. Edwards/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.D15]ARMS27582384X.136 to ASCII,
The following is a HEX DUMP:

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Indeed, I believe that the Nation's economy is the strongest it has been in a generation. Real growth has been impressive, job creation robust, unemployment at its lowest rate level since 1969 and inflation at about its lowest level since 1964. The current economic expansion has now become the longest peacetime economic expansion on recordCand the records go back to 1854. In addition, the Federal budget moved strongly into surplus and surpluses of about $4.5 trillion are now projected over the next fifteen years.

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The most striking measure of the aging of the United States is the falling ratio of employed workers to retirees. In 1960, there were about 5 workers per retiree; today there are 3-1/2 workers per retiree, and in only 30 years time, this ratio will be just 2 to 1 and still falling. The sources of this decline are clear. One factor is a reduction in birth rates compared to the postwar baby boom era. A second factor is increasing longevity. When the Social Security Act was passed in 1935, the life expectancy of a 65 year old American was about 13 years; today it is 18 years, almost 50 percent greater, and rising. A third factor is earlier retirements. In 1950, the average age for first receiving Social Security retirement benefits was 68; today it's 63.

Before we bemoan the economic challenges posed by these changes, it is worth emphasizing that they are mostly positive changes for our society. Declining birth rates, for example, primarily reflect evolving personal preferences combined with broader opportunities for women. And the marked increase in life expectancy during this century has resulted from important advances in the fields of medicine and public health, and it has produced a wonderful improvement in our lives. Evaluating the third factor I mentioned—the trend toward earlier retirement—is more complex. On one hand, we should be grateful that rising incomes have enabled people to enjoy more leisure at the end of life, as well as through shorter workdays and workweeks throughout their lives. But on the other hand, public policy may be inadvertently encouraging people to retire earlier than they otherwise would, and these implicit incentives need to be reconsidered. I will return to this issue later.

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Yet, despite these increasing outlays, the budget is projected to remain in surplus until the 2050s. How is that possible? One critical factor is the assumption that we maintain a very tight constraint on discretionary spending. If we hold discretionary spending constant in real dollars, then, as both the population and real income per capita grow over time, discretionary spending will become a smaller share of total national income. However, reaching this objective will be difficult, as the current levels of defense and nondefense discretionary spending represent their smallest shares of GDP in thirty-five years. Another key factor in the persistent surpluses is the sharp projected drop in interest payments on the federal debt. The baseline projections that I have been describing assume no change in current tax or spending programs. Thus, they assume that the projected surpluses are realized, and those funds are used to pay off existing debt held by the public. This process creates a virtuous cycle: the paydown of debt reduces the future interest burden, which in turn increases the size of future surpluses and enables more debt to be paid down. The political challenge to achieving this outcome is to resist the temptation to dissipate the surpluses now, and I will return to this issue later.

Before turning to appropriate responses to the coming age wave, we need to recognize that demographic change has important implications not only for government programs and the government budget, but also for the economy more generally. Consider the sources of our total national income. National income depends on three basic factors: 1) our accumulated savings, or capital; 2) the number of workers and the education, training, and skills of those workers; and 3) the technology and management with which we combine these factors of production to generate output. The fundamental economic challenge posed by aging is that a smaller share of the population will be in the work force. In that situation, maintaining a high level of national income requires us to compensate for a smaller number of workers by having workers who are more highly skilled and by having a greater amount of accumulated savings. I will come back and discuss some concrete policy steps to raise savings, and also some steps that could encourage people to remain in the workforce longer. Let me just emphasize now that if we can boost the size of the total economic pie in the next century, we can meet the retirement costs of the baby boom generation without unduly burdening future workers.

So far I have merely described the demographic transformation we face and its likely effects on the government budget and the economy. This brings us to the critical question: how should we respond to this age wave? And, in particular, what can we do *now*?

Fundamentally, there are only two ways to deal with this challenge. First, we can make structural changes in our economy and in government programs to reduce the burden that an older population will impose. Possible changes of this sort include improving the efficiency of the health care system and not discouraging work by older people who want to keep working. The second way we can deal with this challenge is to set aside more resources today to meet the future burden. This means raising saving by households and by the government, so that total national wealth will be significantly higher in the future.

I think it is clear that we can best respond to the age wave by pursuing *both* of these approaches. If we do not save more now, then the structural changes that will be required down the road could be quite severe. This option would impose too large a burden on future workers and retirees. At the same time, if we make no structural changes, then the amount of extra saving that is required is extremely large. This option would impose too large a burden on current workers. Thus, fairness to all generations requires us to strike a balance between higher saving and structural reforms.

Let me emphasize that both of these responses to our aging population should begin now. Clearly, we cannot wait to raise our national saving until the baby boomers have retired. Just as individuals and families save for retirement while they are working, so the nation must bolster its savings before the need for those savings is upon us. Structural reforms also should begin now. Many reforms take time to implement, and even those that could be put in place immediately ought to be imposed gradually and with substantial lead time so that people can make adjustments in their own planning.

Now let me turn to the President's proposals, using the framework in the President's State of the Union address as my guide. I will begin with Social Security, then turn to Medicare, and conclude with the tax code.

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

The President has now proposed that 62 percent of the projected budget surpluses over the next 15 years should be devoted to Social Security. Most of those additional funds would be used to purchase Treasury bonds, the same assets that the Social Security system has invested in since its inception. But one-fifth of those funds would be invested in an index of private-sector equities, which should yield a higher rate of return. Together, the transfer of new money and the investment in equities would bridge more than half of Social Security's long-term funding gap. Achieving full actuarial balance will require tough choices about structural reform, and the President has called for a bipartisan process to make these choices. I would note that this proposal involves the combination of additional saving and structural reform that I discussed.

When considering possible structural reforms, one choice would be to encourage later retirement. As I mentioned before, the increasing share of life spent in retirement may be partly a reaction to public policies that encourage people to leave work before they otherwise would. For example, the combination of Social Security benefit and tax rules provides an incentive to retire early, even though a person's benefit is adjusted somewhat to reflect retirement before or after age 65. The President has proposed eliminating part of that incentive, which is the earnings test that reduces Social Security benefits paid to people still in the workforce. Examining proposals to raise the so-called "normal retirement age," which now stands at 65, should also be part of a public debate. The 1983 Social Security reforms set in motion a gradual increase to age 67, with the first step in this increase to occur next year, and the last step in 2022.

A majority of members of the 1994-96 Social Security Advisory Council recommended an acceleration of these planned increases and further increases thereafter to match the expected increase in longevity. In the interest of fairness, however, we must look closely at the likely impact of any changes in this area on those Americans in physically demanding jobs or with disabilities.

In his State of the Union address, the President proposed to devote another 15 percent of the projected budget surpluses to Medicare. He explained that, as with Social Security, resolving this program's long-term funding problem will require a combination of additional resources and structural reform. Unfortunately, the National Bipartisan Commission on the Future of Medicare held its final meeting last month without reaching consensus. The President believes that the Commission did valuable work, but he does not support the proposal offered by Senator Breaux and his colleagues.

Instead, the President has asked his advisors to draft a plan for Medicare reform that meets the following objectives. First, we should modernize Medicare and make it more competitive. By adopting the best management and clinical practices from the private sector, we can keep spending growth in line while maintaining high-quality services. Second, Medicare should continue to provide a guaranteed set of benefits without excessive new costs to beneficiaries. Third, we should use savings from these reforms to help fund a prescription drug benefit. Prescription drugs are a standard element of most health insurance plans for working Americans, but many Medicare beneficiaries have no coverage for their medications, or have inadequate or very expensive coverage. Lastly, we must dedicate part of the projected surpluses as general revenue transfers to Medicare. Structural reforms alone cannot meet the demographic and health challenges of the next century, but reforms combined with additional funding can do so.

The President proposed dedicating another 12 percent of the projected budget surpluses to a new system of universal savings accounts, dubbed "USA Accounts." The motivation for these accounts is straightforward: Social Security was never intended to be more than one leg of a three-legged retirement stool, with the other legs consisting of private pensions and household savings. So, along with strengthening Social Security, we need to increase private pension coverage and household savings. USA Accounts would substantially boost savings, especially for lower and middle income Americans who do less saving than higher income Americans, and receive much smaller incentives for saving through the tax code.

The Treasury Department estimates that almost two-thirds of all tax expenditures on pension plans go to families with incomes over $100,000. In contrast, the USA proposal would provide most of its benefits to the bulk of the population. Workers and their spouses in low- and moderate-income households would receive an automatic government contribution of $300 into their USA accounts. In addition, voluntary individual contributions would be matched by further government contributions at a rate that declines with income.

Let me conclude by discussing the most important macroeconomic effect of the President's State of the Union proposal, which is to dramatically increase national saving. National saving has already risen sharply during this Administration, from 3.1 percent of gross domestic product in 1992 to 6.6 percent in 1998. This improvement is accounted for entirely by the elimination of the federal budget deficit, as private saving actually declined relative to total output. Keeping the national saving rate high should be a central priority for fiscal policy in the coming decades, and the President's proposal meets this objective.

First, the transfers to Social Security and Medicare would allow the government to pay off most of its outstanding debt, with publicly held debt projected to fall from 44 percent of GDP today to about 7 percent in 2014. That would represent the smallest burden of government debt on the economy since the United States entered World War I in 1917. In addition, some of the surpluses would be used to purchase equities, which would represent an asset of the government. Both the bond buyback and the equity purchases would make room in private portfolios to hold more productive capital. This extra capital would increase private investment, keep interest rates low or drive them lower, fuel economic growth, and raise future national income. Moreover, the USA accounts represent a tax cut that is highly likely to add to personal saving. Altogether, the President's framework would save almost 90 percent of the projected budget surpluses, with the remaining small share used to meet pressing military and domestic needs. Compared to a policy that dissipated those surpluses on current spending or tax cuts, the President's proposal would substantially boost the size of the economic pie when the baby boom retires.

Finally, I want to end on an optimistic note. The age wave presents an important challenge to our government, our economy, and our nation. But the challenge can be met. We have the creativity and the resources to make the necessary adjustments in our public policy and in our lives. Both workers and retirees can enjoy higher standards of living in the next century than we enjoy today. Achieving this goal will be much easier, however, if we take action today. Thank you very much.

RECORD TYPE: PRESIDENTIAL (NOTES MAIL)

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SUBJECT: Speech to Businesswomen

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Remarks of Janet Yellen
Chair of the President's Council of Economic Advisers
to the Business Women's Network's Annual Salute to Women,
"Leadership Into the Next Millennium."
October 14, 1998, 12:20 p.m.

Thank you. It is a pleasure and an honor to be here with so many impressive women business leaders. I want to congratulate the Business Women's Network for organizing this interesting and important symposium on "Leadership into the Next Millennium." Women are indeed poised to lead the nation's industries and new ventures into the 21st Century. Recognizing today's women leaders and supporting and encouraging tomorrow's will help pave the way for greater participation by women in the business and financial worlds.

As you well know, women entrepreneurs, innovators and executives are making valuable and lasting contributions to America's economy. Women own nearly 40 percent of all firms in the United States, contributing $2.3 trillion to the economy. Nearly one in every five U.S. workers is employed by a woman-owned firm. And, women are starting businesses at twice the rate of all businesses.

To sustain and expand the growth and success of women-owned businesses, it is critical that our nation's economy remain healthy and strong. And that's what I'm here to talk to you about today. In my brief remarks, I want to discuss the prospects for the American economy going forward, in light of the turmoil in world financial markets and the international economy, and describe what we need to do to sustain growth in the United States and the world economy.

The Current State of the Economy

Let me begin with the current state of the economy. At this time, the U.S. economy remains healthy and is still largely free of the symptoms that often presage an economic downturn—such as an increase in inflation, an accumulation of inventories, or significant financial imbalances. The unemployment rate has been below 5% for more than a year; job growth remains robust; inflation remains tame; real wages and real personal income are rising; and, consumer confidence is high. For the first time since 1969, the Federal budget is in surplus, and the surplus is projected to increase in coming years. And, even with the recent retreat in the stock market from its July high, household net worth remains high relative to disposable income and businesses do not appear to be taking on excessive debt.

Outlook for U.S. Economy

It is reassuring that our nation's economic fundamentals are in such good shape so far into this expansion. But it is also fortunate, because the U.S. economy needs that strength to weather the storms that have hit the world economy over the past year. More than a year has elapsed since the Asian crisis began. Unfortunately, what started as a regional economic and financial crisis in East Asia has now developed into a larger global crisis, spreading to financial markets around the world, impacting global commodity markets, impairing economic development and imposing extraordinary hardship in the crisis afflicted countries, and posing risks to growth in industrial countries including the United States. There are few countries around the globe that have been unaffected.

Real U.S. exports of goods and services, particularly to countries in East Asia, fell in the first half of the year and net exports subtracted 2 percentage points from GDP growth. Our imports from these countries have also risen—although these imports have been on an uptrend for several years. The Asian crisis has also affected U.S. farmers, who are experiencing low prices and shrinking exports, on top of bad weather in some regions. The manufacturing sector is experiencing weakness related to the crisis' impact. Financial institutions with emerging market exposure have suffered losses and are exposed to further losses, particularly if the impact of the crisis intensifies in our own hemisphere. Market volatility has increased and we have recently seen rising spreads on corporate debt and some tightening of credit standards and loan terms in commercial lending--evidence of a generalized flight to safety by participants in financial markets. These conditions imply an effective tightening of financial conditions.

Looking ahead over the next year, net exports are likely to continue to drag down growth, though this drag would diminish with the stabilization of crisis-impacted economies. Growth in consumer spending may also moderate. Until now, consumption has been boosted primarily by large increases in real income, but also by substantial gains in stock market wealth. *The big boost from a surging stock market may now be behind us. However, continued real income growth should motivate further, but smaller consumption gains.* Overall, economic growth appears to be moderating--below the spectacular 3 3/4% pace we have enjoyed over the last 6 quarters--toward the still solid pace anticipated in the Blue Chip consensus forecast as well as the Administration's *Midsession Review.*

To sum up, the international financial picture has deteriorated in recent weeks. But based on the effects so far and the overall health and soundness of the U.S. economy, it remains likely that our economy will continue to see solid growth and job creation. Clearly, however, a further deterioration in the international economic situation remains the single largest risk to a forecast of continued solid growth.

Sustaining America's Growth

Turning to the question of how to sustain America's growth, the first imperative is therefore to work with the international community to promote growth in the world economy and to stabilize international financial conditions. Chairman Greenspan noted recently that no country, including the United States, is an island in the world economy. The growth prospects of all industrial nations will suffer unless we all do our part to help the world economy to grow. Strong growth in the industrialized countries is a prerequisite for recovery of crisis afflicted economies.

In serving as a major engine of global growth, the United States will inevitably see an increase in its trade deficit and some sectors, particularly those that are heavily exposed to trade, will experience disproportionate impacts. We must recognize that, even so, the United States must accept a rising trade deficit if the crisis countries are to recover. This means working to counter protectionist pressures at home just as we urge the crisis impacted countries to keep their own markets open. The Clinton Administration is committed to outward looking, internationalist policies.

As the world's second largest economy, Japan has a key role to play in maintaining world economic growth and its performance will determine the prospects for Asia's recovery. Japan has now entered a full fledged recession with Japanese real GDP down 4.3% at an annual rate in the first half of 1998 after negative growth in 1997. *Japan risks descent into a deflationary spiral in which falling prices raise real interest rates, further discouraging spending.* The United States continues to believe that Japan must take strong measures to stimulate domestic demand, to restore confidence, to deal with the problems of its banking system, to open its markets and to deregulate its economy.

Beyond working to insure growth in the industrial world, the United States has been focused since the outset of this crisis on the need to contain financial contagion and to restore the confidence of market participants--a prerequisite for capital flows to continue. We have supported the IMF in its goal of providing financial assistance to countries in crisis that are willing to implement the often tough reforms needed to restore economic confidence and strengthen the underpinnings of their economies. It is now widely agreed that structural weaknesses, particularly in the process of financial intermediation, were an element in initiating the crisis. At this stage, however, the contagious effects of the ongoing crisis threaten countries that have made great progress in implementing sound macroeconomic and structural policies and worked to strengthen the fundamentals of their economies. To deal with such threats, the President last week proposed creating a precautionary financial facility based in the IMF whose goal would be to provide assured access to assistance in the event of need to countries with sound policies which have acted responsibly, thereby helping them fight off the contagious impact of the ongoing crisis.

However, for the IMF to play its critical role in countering contagion, its resources must be expanded and the key step is for the U.S.Congress at long last to meet its obligation to the International Monetary Fund by paying our dues and providing out contribution to the New Agreement to Borrow. *The IMF's resources are now badly strained. Market participants need to know that the IMF has the ability to act and failure by the Congress to pay our dues threatens this confidence, placing our own economy at substantial risk.*

Stabilizing the global financial turmoil and promoting world economic growth is a critical element in sustaining our nation's current economic health and strength, but more is needed. I would like to say just a few words about the other components of the Administration's overall economic strategy.

From the outset, this Administration has focused on getting the policy fundamentals right and that approach must continue. Three key policy fundamentals have been fiscal discipline, investing in the skills of the American people, and promoting policies to enhance competition at home and promote engagement in the global economy. These were the right policies early on for encouraging the job creation needed to move the economy to full employment and they are the right policies now for nurturing and sustaining the expansion. Fiscal discipline--refusing to spend a single penny of the surplus until the solvency of Social Security is secured--will enable us to prepare for the demographic challenges we know lie ahead. It will also help keep interest rates low, making it possible for firms to borrow readily to finance and expand their businesses. Investing in education is necessary to enable our people to succeed in the global economy. And enhanced competition at home and abroad is necessary to keep our businesses on their toes--innovating, raising productivity and, in the process, raising living standards.

Conclusion

Let me conclude by pointing out what is at stake in meeting the challenge of sustaining America's growth. Now that we have achieved a high-employment economy grounded in sound policies, we have the potential to overcome some of the longer run problems that have plagued the economy for a long time. Continued strong investment should encourage growth in productivity and real wages. Strong labor markets should provide opportunities for workers who might otherwise have been discouraged to acquire job skills and experience that will create a stronger labor force attachment. Fiscal discipline will keep interest rates low. Taking these steps to keep our economy strong will help women start new businesses, expand existing businesses, create new jobs, and extend economic opportunity to more Americans. We salute you. We wish you every success. And we want you to know that we will do our very best to create the conditions you need to succeed.

RECORD TYPE: PRESIDENTIAL (NOTES MAIL)

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CREATION DATE/TIME:14-MAY-1999 14:45:52.00

SUBJECT: families report

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FAMILIES AND THE CHANGING LABOR MARKET

December 1998

A Report by the
Council of Economic Advisers

EXECUTIVE SUMMARY

American families have been in the midst of change in the last three decades – changes in time worked for pay; changes in income and by whom it is earned; changes in family size; and changes in how child care and household tasks are accomplished. This report assesses these changes and the challenges and opportunities they create.

- The hours American parents work in paid jobs have increased enormously since 1969, due to a dramatic shift of mothers' time from the household to the labor market. In 1969, 38 percent of married mothers worked for pay; in 1996, 68 percent did so. Both married mothers and single parents are working more for pay today than 30 years ago.

- Average family income has increased as a result of the increase in paid work hours, so that families can purchase more goods and services than in the past. The average American family is better off economically today than in 1969, but has less time for activities other than work.

- Not everyone has gained by working harder, however. Since 1969, the top quarter of families gained, while the lower quarter lost and the middle has remained nearly constant in per capita income, adjusted for inflation. The situation of lower-income families has been improving, however, in the strong economic expansion of the 1990s.

- At the same time, the share of families with a single parent has grown dramatically since 1969. The typical single parent has less than half as much potential income and only half as much total time as two parents have. The rising number of single parents has increased the proportion of families who are "cash-strapped" and "time-poor."

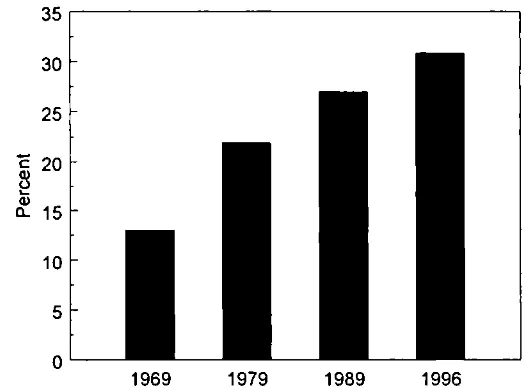
- The increase in work among women appears to have produced some reduction in the time parents spend with their children, although the evidence on time use within families is limited. Most of the extra time spent earning income has come at the expense of housework, not child care or leisure activities.

- Increased time in market work among parents raises a key set of policy issues, including the need for flexibility in paid work hours, the need for available and affordable child care, the need for effective ways to support the earnings of families with low-wage earning parents; and the need to encourage two-parent families to form and stay together. In all of these areas, the Clinton Administration has actively worked to improve the situation of American families.

I. INTRODUCTION

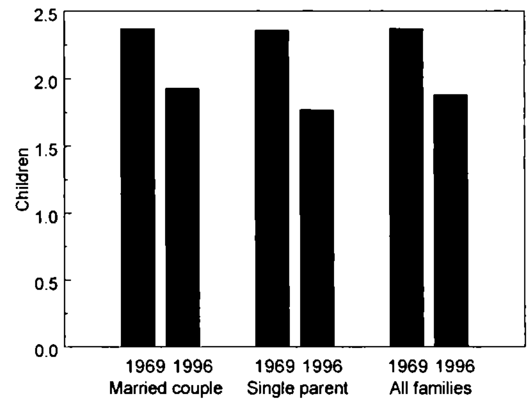
Dramatic changes have occurred over the last thirty years in how families combine work and family life. During the last three decades, women have devoted more and more time to market work. Combined with hourly earnings increases among women, this means women's earnings have gone up substantially, while their time available for work in the home has declined. In contrast, men's average hours of paid work and earnings have remained relatively stable. As a result, families have higher incomes, but they have less time for other activities. In short, American families have been in the midst of change – changes in time worked for pay; changes in income and by whom it is earned; changes in family size; and changes in how child care and household tasks are accomplished. This report assesses these changes since 1969 for families with children under age 18.

1. Single Parent Families as Share of All Families



Two other trends in family life are also likely to affect the well-being of families with children, occurring along with changes in their income and time allocations. First, the share of families with children that are headed by a single parent has increased significantly (see figure 1). Since single parents typically have both lower incomes *and* less total adult time available for work in the home than married-couple families, this trend tends to increase the proportion of families who are "cash-strapped" and "time poor." Second, families have decreased in size as the average number of children in families with children has declined (see figure 2).

2. Average Number of Children per Family



This paper will examine how families with children are faring in the face of all these changes. Key questions to be addressed include:

- How much have hours of market work increased for families?
- How have the extra hours worked by families affected family incomes? How have these trends differentially affected families that differ in skill level, minority status, and number of parents in the household?
- How have these changes in market work and income affected how families use their time in the home? In particular, how have these changes affected parental time available for children?

Some have argued that Americans are facing more and more of a "time bind" as they work longer and longer hours in order to attain an increasing standard of living.[1] Others have argued that, even with increases in hours of paid work, families are not realizing significant income gains, or that families are working harder and harder "just to stay in the same place."[2] No such "one size fits all" characterization adequately captures the variety of experience in different segments of the population. Different types of families have experienced different changes in paid work time and income.

Overall, we find that parents today are spending more time in paid work. Time available for children has declined, but parents have protected child-rearing time by spending less time on household chores. For most groups, family income has increased. With fewer children, parents are able to buy more goods and services for themselves and their children. The average American child – particularly if he or she is living in a family headed by a married couple – is better off economically today than in 1969.

There are some groups for whom the picture is not as rosy, however. The continuing increase in the share of children living in single-parent families has substantially diminished the economic progress that families with children would otherwise have made, limiting both their income and their time. Less educated parents, who have not experienced the wage gains of other families, are working more hours without a commensurate increase in income. It is encouraging to note, however, that most of these families have experienced income gains in recent years during the strong economic expansion of the 1990s, making it easier for them to effectively combine work and family life.

Underlying and reinforcing the trends toward more paid work time and smaller families has been the long-term growth of women's wages. Rising wages pull women into the labor market by making it more expensive for them to stay at home, in terms of foregone income. Higher wage levels for women in the labor market, combined with other changes in attitudes toward market work among women, make it unlikely that families will ever return to the way they were in 1969. With both mothers and fathers in the labor market, we have no realistic alternative but to help parents balance paid work and family life as effectively as possible.

[1] Hochschild (1997); Schor (1991).

[2] Bluestone and Rose (1997).

II. TRENDS IN HOURS OF MARKET WORK

The most dramatic change in the time allocation of families has been in time spent at work for pay. Since 1969, both married-couple and single-parent families have substantially increased their annual hours of paid work. These increases have come almost entirely from the women in these families, who are working more outside the home – more weeks in the year and more hours in the week – than they did thirty years ago. However, while the increase in paid work time has been widespread, the size of the increase has varied considerably across families, depending on the number of parents, their education, whether they have a preschool-age child, and their race or ethnicity.

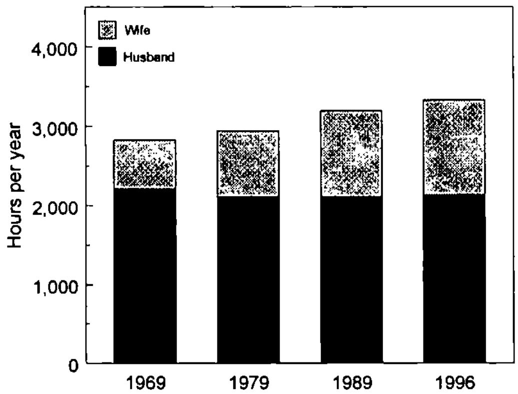
The estimates of annual hours of work presented in this section are based on the March Current Population Survey (CPS), a large representative survey of about 50,000 households each year.[3] While the CPS is the only large-scale representative sample which consistently measures hours of work and family incomes on an annual basis and is therefore the standard data set used for labor market analyses, some have argued that the CPS may be inaccurate because individuals may not be able to recall accurately their usual hours of work during the last year.[4] In section IV of this report we discuss alternative estimates of paid work time based upon "time diaries," which require individuals to maintain detailed accounts of how they spent their time during a day.

For purposes of this analysis, we use the same definition of a "family" as the Census Bureau: all related individuals living together in the same household. We restrict the analysis to families whose head is at least eighteen years old and where there is a child under age 18. A mother (or couple) and her (their) children living in a household headed by another family member are part of the head's family, and an unmarried parent co-habiting with a domestic partner is classified as a single parent. Throughout this paper, unless otherwise specified, the terms "wives" and "married women" refer only to those with children.

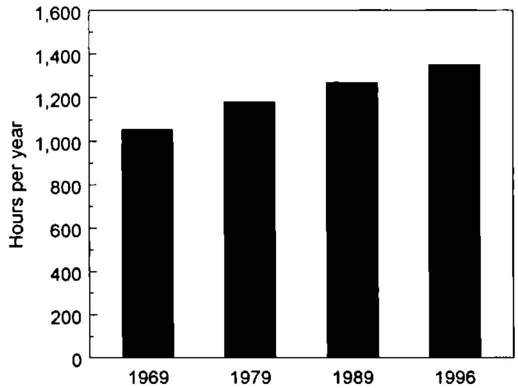
[3] We are using the March 1970, 1980, 1990, and 1997 CPS data sets. The data collected each March refer to the previous calendar year. Thus we refer to data for 1969, 1979, 1989, and 1996. We chose those years because they represent peak years (or upswing, in 1996) in the business cycle and thus permit valid historical comparisons. For 1979, 1989, and 1996, information on annual hours of work was derived from two questions which ask how many weeks each individual worked in the previous year and how many hours they "usually worked" in the weeks they worked. Multiplying weeks worked by usual hours worked per week provides a measure of annual hours of work. The 1969 data are not strictly comparable to later years due to differences in data reporting. We have developed an imputation procedure to make these data more comparable to information in later years.

[4] Juster and Stafford (1991); Robinson and Godbey (1997), chapter 4.

3. Annual Hours of Work, Married-Couple Families



4. Annual Hours of Work by Single Parents



As shown in figures 3 and 4, annual hours of paid work have increased substantially for both married-couple and single-parent families. (All families with children under 18 are included in figures 3 through 6, including parents with zero hours of paid work.) A person who works forty hours a week for 50 weeks a year (a traditional "full-time" job) will work 2,000 hours in a year. For two-parent families (figure 3) annual hours of paid work increased by 497 hours (18 percent) from 1969 to 1996; for single-parent households (figure 4) they increased by 297 hours (28 percent).

Virtually all of the increase in families' market hours of work has come from increases in women's hours. Conceptually, the increase in women's hours can be divided into three components: more women are employed, employed women are working more hours per week, and employed women are working more weeks per year.

The most dramatic change has been in the percentage of women employed. In 1969, 38 percent of married women with children worked for pay, while in 1996, 68 percent did so – a 79 percent increase in employment. The increase in employment for single mothers has been less dramatic: 53 percent worked for pay in 1969 and 66 percent in 1996.

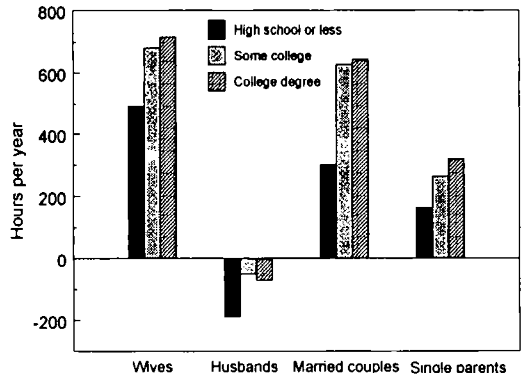
Average annual hours worked *by those who worked for pay* also increased over time, showing that not all of the increase in hours came simply from more women entering the labor force. This increase was much greater for wives (who experienced a 24 percent increase) than for single parents (who experienced an 8 percent increase). This is not surprising since on average, single parents in 1969 worked more hours per year for pay than wives did in 1996. Both hours worked per week and weeks worked per year increased for wives and single parents, among those who worked for pay. Each of these components of annual hours, like the total, increased more for wives than for single parents. Increases in weeks worked per year were more dramatic than increases in hours worked per week.

While annual hours of paid work by all wives increased greatly – by 576 hours, or 93 percent – husbands' hours of paid work decreased slightly from 1969 to 1996. This is the result of husbands working both slightly fewer weeks per year and hours per week. These trends are consistent with estimates reported elsewhere in the literature, based on a variety of data sources.[5]

The increase in families' hours of paid work has been widespread throughout the population. All types of families – whether defined by the head's education level, spouse's education level, presence of young children, or race or ethnicity of the household head – have experienced substantial increases in hours of paid work from 1969 to 1996. In virtually every case, the increase in family hours of paid work reflects increases by wives and by single parents, rather than by husbands.

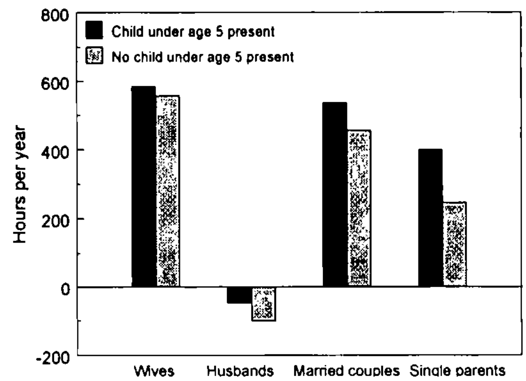
While the basic trends have been similar, the magnitude of the increase in hours of paid work has differed substantially across different demographic groups. In part, this is because some groups, such as women with preschool-age children, had lower hours to start with and therefore more room for expansion than others.

5. Change in Annual Hours Worked, 1969-96
by Education Level of Head of Household



- *Families whose head had gone to college have increased their hours of paid work much more than those whose head had less education* (see figure 5). For married couples with a college-educated husband, annual hours of paid work increased by 644 hours (23 percent) – more than twice the increase for couples in which the husband had a high school diploma or less. The difference was due to the wives' hours increasing more and the husbands' hours decreasing less in the college-educated families. For single parents with a college degree, hours of paid work increased by 320 hours (20 percent), compared to 165 hours (16 percent) for single parents with a high school diploma or less.

6. Change in Annual Hours Worked, 1969-96
by Presence of Child Under Age 5



- *Families with a young child increased their hours of paid work more than those with only school-age children* (see figure 6). For single parents with a child under age five, hours of paid work increased by 400 hours (50 percent), compared to 246 hours (21 percent) for single parents without a young child. For married couples, hours of paid

[5] Ellwood (1998), Rones, Ilg and Gardner (1997) and Leete and Schor (1994) used CPS data, Bluestone and Rose (1997) used data from the Panel Study of Income Dynamics, and McGrattan and Rogerson (1998) used decennial Census data. All of these studies show increases in hours of work for women and decreasing or stable hours of work for men when nonemployment is taken into account.

work increased by 537 hours (20 percent) for families with a child under age five, compared to 457 hours (15 percent) for families without a young child.

- *Married couples with a white or black husband increased their hours of paid work nearly twice as much as married couples with a Hispanic husband.* By contrast, single Hispanic parents increased their hours slightly more than either white or black single parents.[6]

Why have parents changed their hours of paid work? Trends in wages and trends in paid work hours influence each other. Rising wages tend to draw more individuals into the labor force, while falling wages tend to reduce participation. In turn, more work experience leads to faster wage growth, and vice versa. As a result, wages and paid work time tend to move up (or down) together, in a virtuous (or vicious) cycle.

Trends in hours of paid work for both men and women have roughly paralleled the trends in their wages since 1969 (discussed in section III-A below).[7] However, the magnitudes of the changes in paid work time are still not completely understood, as they are not easily "explained" by changes in key economic variables.[8] The increases in paid work among women seem to be much more closely related to increases in their own wages than to the changes in their husband's wages over this period. Declining male wages do not appear to be the main reason why women are increasing their market work.[9] Increased work among women may also be affected by such hard-to-measure factors as changes in assumptions about women's role in the family, diminished discrimination against women in the workplace, or falling barriers to women entering non-traditional occupations. Highly educated women have benefited more from diminished discrimination than have women with less education, as higher-level professional and management jobs have opened up to them. Whatever the reason, large increases in market work hours among women have substantially changed the time allocation and income of families.

Are there constraints in the labor market that have led workers to choose more work -hours than they would want? For instance, perhaps some full-time workers would rather work part-time. A worker's decision about how many hours to work on a job is determined by a number of factors. When workers accept a job, they are agreeing to a formal contract of hours and wages as well as to an implicit contract about career development. They are *jointly* choosing the type of work they do, the environment in which they do it, the wages and benefits they earn, the job's future prospects, and the hours they work. It is possible that employees are working more hours than they would like, but that they value the other characteristics of their jobs sufficiently to work those extra hours.

[6] Trends for Hispanic families are difficult to interpret because of significant changes in the composition of the Hispanic population over this time period.

[7] Blank (1997), chapter 3; Juhn and Murphy (1997).

[8] Blau (1998); Danziger and Reed (1997).

[9] Juhn and Murphy (1997).

III. TRENDS IN FAMILY INCOME

The upward trend in hours of market work raises questions about trends in family well-being. A family's economic well-being is typically measured by its income. Earnings are the largest part of family income, which also includes transfer payments such as welfare and unemployment insurance, interest, dividends, and other unearned income such as child support. Earnings, in turn, come from wages and/or salary, plus any overtime, tips, or commissions. Rising work hours should lead to rising incomes, but the magnitude of this effect depends on changes in wages and other income sources that might be occurring at the same time.

A. Wages

During the same period in which women's hours of paid work have increased, inflation-adjusted wages have been increasing for women on average. Female college graduates' wages have risen more than wages among the less educated. In fact, female high school dropouts' wages have stagnated or even declined slightly. Men's wages have grown very little on average. They have fallen for men without college degrees and remained virtually constant for men with at least a BA.[10] Because fringe benefits have grown since 1969, workers' hourly compensation (including the value of fringe benefits) has improved more than their wages alone.

As we discussed above, these wage changes are positively related to changes in hours of work. More educated women have shown the largest increase in their market work, and their earnings have gone up even faster as wages and hours of work rose together. Less educated men have experienced both declining wages and declining hours of work, leading to earnings reductions.

B. Total Family Income

[10] Blau (1998). These are the trends in mean weekly earnings of full-time workers aged 25-64. Other wage measures such as average hourly earnings or median weekly earnings show slightly different trends, but all show a similar relationship between education levels.

Putting the trends in wages and hours together, to what extent have increases in hours of paid work within families translated into increases in family income – the measure we ultimately care about? To answer this question, we present estimates of average family incomes, by income component, to provide one assessment of how the changes in hours have affected the standard of living of families in the United States.[11] Our income measure is based upon before-tax cash income only, including cash benefits such as welfare and unemployment insurance benefits, and does not include other family resources, such as fringe benefits, food stamps, and the Earned Income Tax Credit (EITC). While these other resources and taxes are important, they are difficult to measure accurately or consistently for individual families. Because food stamp use grew rapidly in the 1970s and the EITC expanded greatly in the 1990s, the income measure we use omits more of the resources available to low-income families today than in the 1960s. Our estimates therefore understate the gains made by low-income families since 1969.[12]

Trends in income and in the various components of income (earnings, government transfers, other sources of income) have varied across different types of families.[13]

1. Trends in Income by Family Structure

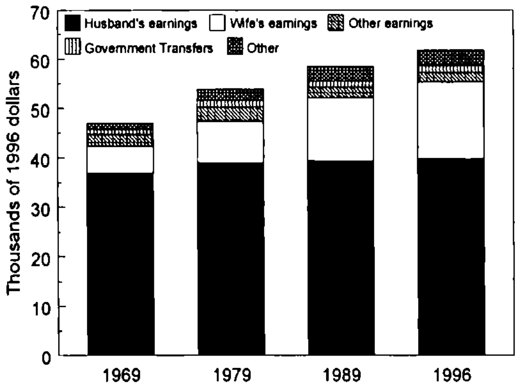
Both married-couple families and single-parent families achieved increases in inflation-adjusted income from 1969 to 1996 (see figures 7 and 8). However, even though single parents had substantially higher rates of growth in paid work hours, married-couple families experienced a much larger average increase in income.

[11] To adjust for changes in prices over time, these estimates use the CPI-U-X1 price index measure. The CPI-U-X1, an alternative to the CPI-U (Consumer Price Index for Urban Consumers), uses the rental equivalence approach to improve the treatment of home ownership costs.

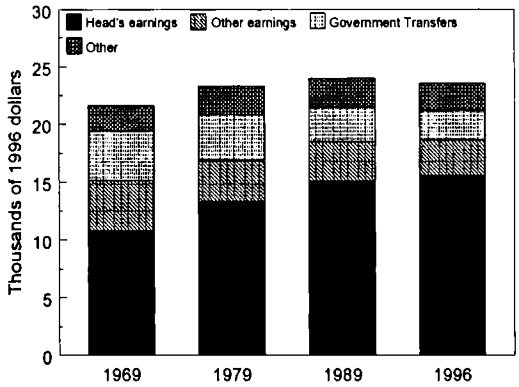
[12] For estimates of changes in family incomes using a broader definition of income, see Levy (1996).

[13] Throughout the following analysis we use mean (that is, average) income, rather than the median or another indicator of the distribution. Changes in mean income can be decomposed into changes in means of the components of income, whereas changes in the median cannot. There has been a more positive change in mean income than in median income, as disproportionate growth in the upper tail of the income distribution pulls up the mean without affecting the median. We multiplied topcoded values by 1.45 before taking the means of the distributions so that the means would not be underestimated.

7. Average Family Income of Married Couples



8. Average Family Income of Single-Parent Families



- *The incomes of married-couple families increased by more than their increase in paid work time.* Their average family income increased by almost a third from 1969 to 1996 ($14,800 in 1996 dollars), while their annual hours of paid work increased by less than a fifth.
- *For single-parent families, incomes increased by much less than paid work time.* They also increased much less than the incomes of married-couple families over this period, after adjusting for inflation. Average income of single-parent families increased by less than ten percent ($1,920 in 1996 dollars) from 1969 to 1996, while their paid work hours increased by more than a quarter.

Increases in the earnings of wives and single parents generated most of the income growth from 1969 to 1996. Single parents' earnings increased more than their total family incomes did, as earnings increases were offset by a forty percent decline in average government cash transfer payments. For two-parent families, increases in the wives' earnings represented two thirds of the increase in family income, with the remainder attributable to an increase in the husbands' earnings and an increase in unearned income from sources other than government transfer payments.

Among both wives and single parents, their increased earnings reflect an increase in hours of work and an increase in hourly earnings rates. Rising earnings among wives reflected a startling 93 percent increase in their hours and a 52 percent increase in their earnings per hour. For single parents, hours of work increased by 28 percent, while hourly earnings increased by 17 percent.

2. Trends in Income by Other Demographic Characteristics

As with hours of paid work, trends in average family incomes differ substantially across groups of families classified by education, race or ethnicity, or presence of young children. Income growth has been greater for families whose head is highly skilled, for families headed by a non-Hispanic person, and for families with preschool-age children.

- *More highly educated families had greater income growth from 1969 to 1996.* Married couples' income grew by almost a third if the husband had a college education, but less than ten percent if the husband had a high school diploma or less. For single parents, inflation-adjusted incomes grew by eight percent if they had a college degree, but incomes *fell* by four percent for single parents with a high school diploma or less. Much of this difference in income growth reflects larger hours increases for highly skilled wives and single parents, and earnings declines for low skilled husbands. Erosion of the purchasing power of cash welfare benefits also helps explain why the inflation-adjusted incomes of less-educated single parents fell.

- *Average income growth for whites and blacks was substantially higher than for Hispanics.* Among families headed by a white person, average incomes grew for both married couples (18 percent) and single parents (2 percent) from 1979 to 1996.[14] For blacks, average incomes grew by 18 percent for two-parent families and by 6 percent for single-parent families. Finally, for Hispanics, average incomes *fell* for both married couples (4 percent) and single parents (3 percent). These results are striking, given the relatively large increases in hours worked for pay by Hispanic single parents over this period. An increasing share of recent immigrants with lower education and wage levels in the Hispanic population helps explain why Hispanics' incomes fell. In addition, wages and cash welfare benefits declined.

- *Families with a child under age five had greater average income growth than families with older children.* For married couples, average incomes increased by 38 percent for families with a child under age five, compared to 27 percent for families with only older children. For single parent families, mean incomes increased by 17 percent for those with young children, but by just 6 percent for families with only older children.[15]

3. Recent Trends in Family Income

Trends in family income from 1992 to 1996 are considerably more favorable than the longer term trend since 1969. Even families headed by single parents with a high school diploma or less, whose real income deteriorated from 1969 through 1992, made income gains from 1992 to 1996 during the sustained period of economic expansion under the Clinton Administration.

C. The Distribution of Family Per Capita Income

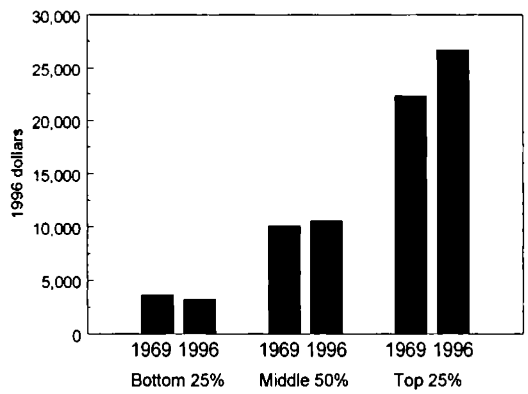
[14] Our race and ethnicity comparisons begin in 1979 because the CPS did not identify Hispanics in 1969.

[15] Of course, having a younger child often implies being a younger parent. We do not control for the age of the parent in this analysis.

To assess the implications of income growth for families with children, we need to take account of the increasing share of single-parent families, whose incomes are lower and grew much less than the incomes of married-couple families (see section III-B-1 above). We also need to consider the decrease in family size, because a given family income provides more resources per child when there are fewer children in the family. Moreover, because less-skilled, lower-income parents have had slower income growth than highly skilled, higher-income parents, it is important to consider the trends in income for lower-income and higher-income families, not just the average family.

Figure 9 presents estimates which incorporate the combined effects of the increasing share of single-parent families and decreasing average family size, to assess changes in incomes for families with children. To reflect changes in the share of single-parent families, the diagram shows changes for the *combined* family income distribution of single-parent and two-parent families. In addition, as a crude way of adjusting for the differences in family size between two-parent and one-parent families and for the decreases in family size over time, family incomes are presented in per capita terms. (This is a crude measure because it does not cost twice as much to support two people as one. On the other hand, two do cost more to support than one. The true measure of equivalent income for different family sizes lies somewhere between per capita and total income.) The figure shows the change in average income per person for the lowest quarter, the highest quarter, and the middle half of the distribution of all families' per capita incomes.

9. Mean Family Income, Per Capita



These estimates indicate that while there has been substantial growth in income per person for families with high per capita income, income per person has been either stable or decreasing for other families when 1996 is compared with 1969. During the economic expansion from 1992 to 1996, however, families with lower per capita incomes also experienced rising income per person.

- *Since 1969, the top quarter of families gained, while the lower quarter lost and the middle half remained nearly constant in per capita income terms, after adjusting for inflation.* The top quarter gained 20 percent ($4,420 in 1996 dollars) from 1969 to 1996, while families in the lower quarter of the per capita income distribution had declines of 11 percent ($410). For families in the middle half of the per capita income distribution, average income per person has remained relatively constant, with income gains of 4 percent ($452).

Since family size has been decreasing, it follows logically that increases in mean income are less dramatic, and decreases are more dramatic, when calculated on a family basis rather than on a per capita basis.

IV. HOW DO FAMILIES RESPOND? IMPLICATIONS FOR FAMILY TIME USE OUTSIDE THE JOB

The trends in hours of paid work and family incomes described above have had a major impact on family life. Increasing hours of paid work may mean higher incomes, which provide more resources for parents and children. But increasing paid work time also means less time for other activities. The evidence on time allocation to non-market activities is much more limited than the data on hours of paid work and income, and conclusions must therefore be more tentative.

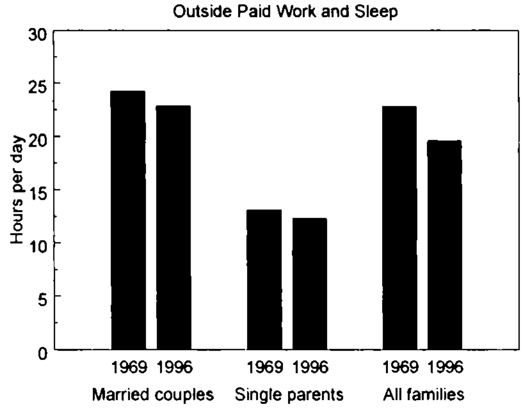
The CPS, with its larger sample size, only allows us to examine hours spent on paid work (and therefore hours available for other activities) along with changes in family size and structure. We have limited data on what people actually do with the time they do not spend in paid work, mainly from time-use diary studies. These studies have complete data only for a small sample of people. We begin with the CPS data regarding basic trends and then discuss the more detailed time-use diary data.

A. Trends in Current Population Survey Data

What can the CPS tell us about how the changes of the past several decades have affected the number of home hours that families have available for caring for children and maintaining a household? On the one hand, families may have less time available for child care because they are spending more time in the labor market and because the share of families with a single parent is growing. On the other hand, the number of children per family has fallen, which would tend to increase parental time per child.

Figure 10 shows the trends in non-market time that custodial parents potentially had available to spend with all their children, after subtracting time spent at paid work and allowing eight hours per day for sleep. We emphasize the fact that this is only time *potentially available* in the home; there is no information in the CPS about how parents actually spend their time outside paid work. Figure 10 shows that from 1969 to 1996, both married couple and single parent families experienced a decrease in time not spent on paid work. The overall decrease is greater than the decreases within either family type because the proportion of single-parent families increased over this period.

10. Available Time of Custodial Parents Outside Paid Work and Sleep



[Automated Records Management System Hex-Dump Conversion]

The other extreme is to assess changes in total parental time potentially available *per child.* This measure is obviously misleading because it assumes that a single child who spends two hours a day with a parent gets as much parental attention as two children who spend four hours a day with a parent. While this assumption is clearly false, it gives us a lower bound for the impact on children. Despite increases in paid work hours for each type of family, the amount of non-market time available *per child* has *increased* for both married-couple and single-parent families since 1969. When single-parent and married-couple families are added together, however, the amount of family time per child has remained relatively constant. This reflects the fact that a shift toward more single parents tends to decrease parental time available to children, because it reduces the number of custodial parents available to spend time with children.

This extreme case suggests that, *at best*, parents have about as much time available to spend with their children as before, while under more realistic scenarios, the time potentially available for them to be at home with their children has declined. Determining what these changes in potential time available at home mean for actual time spent with children is difficult, however.

B. Time Use in the Home Estimated from Time-use Diaries

Fortunately, we have an alternative – and somewhat more informative – source of data: time-use diary surveys, which ask respondents to keep a detailed diary recording how they spend their time during a specific day. These surveys provide an alternative, more accurate method of measuring paid work time, as well as time spent in various kinds of unpaid activities, such as commuting, housework, child care, shopping, recreation, and personal care. The trends in hours of paid work time and non-market time described above are based on data which report individuals' estimates of their usual hours worked per week in the previous year. Such estimates may not accurately portray the actual hours worked for pay because the question is somewhat ambiguous and respondents may not be able to report accurately on a "usual" week in the few minutes allowed during the CPS interview. Time-use diary measures tend to show shorter paid work hours and sometimes even different trends than the CPS.[16]

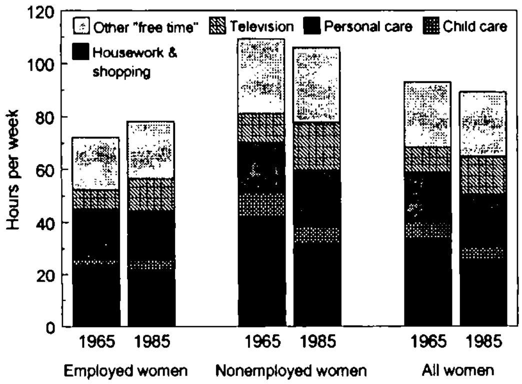
Unfortunately, such time-use diary surveys are conducted much less frequently and with much smaller samples than the CPS. The latest available data were collected in 1985; results of a survey done in 1992-94 are not yet available. Because of the small samples, time-use diary surveys cannot be used to examine trends for smaller subgroups of the population, such as single parents or blacks. Moreover, the individuals who complete the diaries may not represent the U.S. population as well as the CPS sample does. These surveys do, however, provide information about how much time is spent in different types of unpaid work at home, such as child care and housework, in leisure pursuits, and sleep.

1. Averages

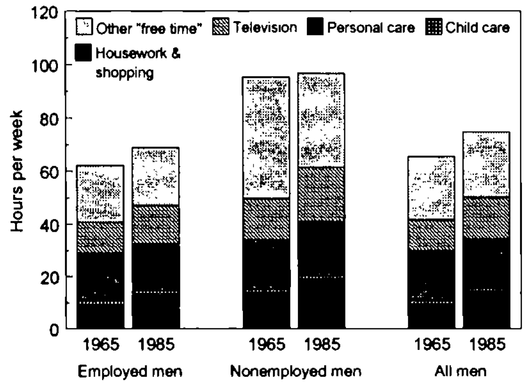
[16] Robinson and Godbey (1997), chapter 5.

Time-use diary surveys suggest that most of the increase in women's formal working hours between 1965 and 1985 was offset by decreases in time spent on household chores (see figure 11). These decreases were coupled with increases in time spent on household chores by both employed and nonemployed men over this period (see figure 12). There was very little reduction in time spent with children, and "free time" spent watching TV actually increased.[17] These trends are rather surprising, since they are not consistent with the widespread feeling that leisure time has become less available.

11. Women's Division of Time
Outside Paid Work and Sleep



12. Men's Division of Time
Outside Paid Work and Sleep

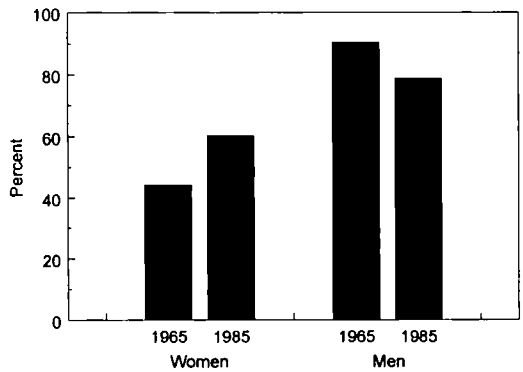


[17] Robinson and Godbey (1997), Tables 3 and 9.

One possible way to reconcile these numbers with a general sense of "time stress" may be to note that many women have moved from the "nonemployed" to the "employed" category, which dramatically changes their time-use patterns. In any single year, employed women spend over one third less time on child care and household tasks than women without paid jobs, but still have 25-30 percent less free time.[18] Time-use surveys conducted in the U.S. in 1965 and 1985 show that employed mothers spent virtually the same amount of time taking care of children in 1985 (6.7 hours per week) as in 1965 (6.3 hours per week). Mothers without paid jobs spent 12 hours a week on child care in both years. (But note that nonemployed women are more likely to have young children.) This is consistent with other analyses of these time-use surveys, which show no decline in child care time within mothers' employment category.

When the shift of women into employment (shown in figure 13) is taken into account, however, mothers' time in child care declined by 10 percent overall, from ten to nine hours per week. Fathers did not make up the difference; their child care time remained about 2.6 hours per week from 1965 to 1985. This suggests that the increase in market work among women has reduced parents' total time with children.

13. Percent Employed



Source: Time-Use Diary Surveys (Robinson & Godbey 1997)

Time spent in personal care and commuting to work did not change much. The time-use diary estimates of commuting time are corroborated by Census department data. A Federal Highway Administration survey found that the average commute time increased by 2.5 minutes (13 percent) between 1983 and 1995. Surprisingly, "free time" activities *increased* by almost 5 hours per week for both men and women, due almost entirely to an increase in television-watching (including watching TV with children). What "gave" for women was household chores.

The time-diary results above are from descriptions of adults' time. Recent time-diary evidence sheds new light on how *children* spent their hours in 1997. The most striking finding is that two-parent families on average spent remarkably similar amounts of time engaged with their children regardless of whether or not the mothers were working. Dual earner couples spent an average of 19 hours per week engaged with their children, while families with working fathers and stay-at-home mothers spent 22 hours per week engaged with their children.

2. Differences among Families

These estimates are based on average trends. They may miss important distinctions between high- and low-income groups, or between single-parent and two-parent families. The effect of women's increased hours in the labor market on families is likely to vary between

[18] Robinson and Godbey (1997), Tables 3 and 6.

college-educated parents, whose incomes have been rising because their hours and wages both increased, and less-educated parents, whose incomes may have fallen despite increased work hours because of falling wages. It may be harder for families with more limited resources to cut back on housework by buying time-saving services and appliances. The effect of women's increased hours in the labor market on families is also likely to vary between married couples, who can shift some housework and child care from working wife to husband, and single parents, who cannot. Within married-couple families, moreover, there are likely to be differences across education levels in this shifting of tasks, as child care time by fathers rises with their education. Unfortunately, the time-use diary survey samples are too small to be broken down into these subsamples.

V. KEY POLICY ISSUES RELATED TO THESE CHANGES IN FAMILY LIFE

The enormous changes in the ways American families function create new opportunities, but also present new policy challenges, to private employers as well as to the government. There are four key areas of policy that are important in helping families better balance work and family life: increasing the flexibility of market work; supporting income among low-income working families; improving access to high quality, affordable child care; and encouraging the formation and maintenance of two-parent families.

A. Increasing the Flexibility of Paid Work

The effect of parents' market work time on children also depends on when and where it is performed. By shifting from work in the home to work in the market, many women find themselves with far less flexible schedules to respond to other family needs. Key employment arrangements that affect hours flexibility include:

- *Flexible work arrangements* (defined as allowing workers to vary the time they begin or end work) are an increasingly popular approach to decreasing the tension between work and family. In 1997, 28 percent of full-time wage and salary workers had flexible work schedules. This was up sharply from 15 percent in 1991, the most recent prior year when data were collected.[19]

- *Shift work* may enable parents to share child care more easily by working different shifts. If shift work is to ease the task of combining paid work and child care, however, the choice of shifts must be voluntary. For those workers who cannot determine their own schedules, the combination of shift work and work in the home is a potential source of stress and expense. Non-standard working hours may make it difficult both to find time

[19] Data on alternative work arrangements comes from the 1991 and 1997 May supplements to the CPS.

to spend with children when they are awake and not in school and to arrange for child care while working. In 1997, 83 percent of full-time wage and salary workers were on regular daytime schedules, 4.6 percent were on evening shifts, 3.9 percent were on employer-arranged irregular schedules, 3.5 percent were on night shifts, and 2.9 percent were on rotating shifts.

- *Working at home for pay* can sometimes increase parents' flexibility. In 1997, 3.3 percent of all wage and salary workers were doing work at home for pay, up from 1.9 percent in 1991. An additional ten percent of all wage and salary workers in 1997 were doing work at home without receiving extra pay for it. Nearly 9 out of 10 workers who were paid for work at home were in "white-collar" occupations.

Maintaining high productivity need not be inconsistent with allowing flexibility in work arrangements, as many private sector employers have discovered. The Federal government has led by example, instituting "flextime" which allows employees some discretion in when they work their allotted hours. The President has proposed a flextime initiative that would allow *all* workers to take "time-and-a-half" overtime compensation in the form of compensatory time whenever they need it for family and medical leave purposes or vacation, instead of cash.

This Administration has played a major role in increasing flexibility among families by helping enact the Family and Medical Leave Act (FMLA), which enables workers to take up to 12 weeks unpaid leave to care for a new baby or ailing family member without jeopardizing their jobs. Since its inception in 1993, millions of workers have taken advantage of the FMLA to spend necessary time with their families. The President has also proposed expanding FMLA to allow workers up to 24 hours per year for parent-teacher conferences or to accompany a child, spouse, or elderly parent for routine medical and dental care.

B. Giving All Parents, Especially Low-Income Parents, More Choices

While incomes have been rising for most people, families at the bottom of the income distribution, particularly the less educated and single parents whose inflation-adjusted incomes were lower in 1996 than in 1969, still face serious economic hardship. For many low-income parents, working harder and spending less time with their families is not a choice but a necessity. Recent policy changes that have helped these families cope include:

- Expansions in the *Earned Income Tax Credit* (EITC), to assure that persons who work hard on their jobs can take home enough money to support their families;

- Providing a $500 per-child tax credit to help offset the expense of raising children;

- Increases in the *minimum wage* from $4.25 in 1993 to $5.15 in 1997;

- Expanded *child support enforcement* provisions, which help ease the economic burden on single mothers and enforce responsibility for economic support of children on both parents;

- Major *welfare reform legislation* that has helped single mothers move from welfare to work;

- Employer tax credits to help create jobs for welfare recipients;

- Substantial expansions in *support for vocational education, community college, and skill development* among persons in lower-income families, including the creation of Hope Scholarships, increases in the maximum Pell Grant, and the passage of the Workforce Investment Act of 1998.

In addition, it is hard to underestimate the importance of a strong economy and steady economic growth, which creates jobs, reduces unemployment, and raises wages for all workers – especially the less skilled who are most affected when jobs are scarce.

C. Improving Access to High Quality, Affordable Child Care

Most parents adjust to an increase in their paid work time by increasing their use of child care providers other than themselves. As mothers go to work, families have more income to spend. Some of it can be spent on paid child care. The availability, cost, and quality of child care that can be purchased in the market affects the employment decisions and financial status of families.

The primary child care arrangements for preschool-age children of employed mothers in the fall of 1994 were divided roughly equally among care in the child's home (by a relative or nonrelative), care in another home (by a relative or nonrelative), and care in an organized child care facility. Since comparable data were first collected in 1986, the trend shows a slight increase in the proportion of children receiving care in their own homes, relatively fewer children receiving care in another home, and relatively more children receiving care in an organized facility. The share of monthly income spent on child care by those purchasing this service rose from 6.3 percent to 7.3 percent between 1986 and 1993.[20]

This Administration has consistently emphasized the importance of child care availability and quality. Since 1993, child care subsidies for low-income families have grown by 80 percent. In addition, the Administration's budget proposal for the 1999 fiscal year included $5.1 billion

[20] The earliest comprehensive data on families' child care arrangements were collected by the Bureau of the Census in 1977. The earliest data that are compatible with the most recent data are from fall 1986. We use the 1986 data for consistency.

to increase the Child and Dependent Care Tax Credit for three million families earning under $60,000 a year.

D. Encouraging Two-Parent Families

When two-parent families form and stay together in a supportive relationship, many of the economic and emotional stresses of balancing work and family are eased. Two-parent families have greater earnings potential and more potential time to spend with their children than do single-parent families. Among the recent policies which have helped maintain married couple families, the *eligibility rules for Medicaid* and other programs have been changed so as not to penalize two-parent families for staying together.

VI. CONCLUSION

A massive shift of women's time from the home to the labor market has occurred in the last generation. For most families, increasing incomes have accompanied mothers' increasing paid employment, although the shift from married-couple to single-parent families has reduced both income and parental time available for many children. While smaller family sizes have helped offset the increase in market work, many parents still find it difficult to balance jobs and children. Raising children is not easy; even in the past when more women stayed at home while their children were young, many of them found full-time homemaking extremely stressful.

Single parents face the most difficulties. They have only half as much total time available as two parents, and single mothers typically have less than half as much earning power as a married couple because women's wages are lower than men's. Lack of income limits most single parents' ability to purchase time-saving goods and services and high quality child care. Thus, they may face a severe time and money bind.

Men without college educations have faced declining wages. While increased work by their wives has helped maintain their families' standard of living, it is still difficult for them to afford child care. Moreover, less-educated workers are less likely to have jobs that permit parents to arrange their hours to accommodate family needs.

Better educated parents, whose increased time in the labor market has been rewarded with considerably higher incomes than in 1969, can better afford to pay for high quality child care, household help, and other time-saving goods and services. Married-couple families, particularly those where the husband has a college degree, have seen substantial improvements in their economic situation over the last three decades. Yet, even these couples often express dissatisfaction with the stresses involved in balancing work and family.

It may be that changing social norms have increased the income requirements for raising children, making even married women in families whose income has gone up over time feel that they cannot afford to stay at home as their mothers did. Moreover, even high-income two-earner couples may find that their jobs entail longer hours and a more demanding, stressful pace than they would freely choose, although these jobs may also provide the income, long-term career prospects, and personal fulfillment that they desire. But a job comes as a total package, and these families cannot give up some income for more time at home without giving up the rest of the package, which they find attractive on the whole. Therefore they, too, are looking for help in balancing the demands of job and family.

The changes in parents' paid work time and family size of the past three decades have been driven by the long-term increase in women's wages and job opportunities; hence they are not likely to be reversed. These increases in women's earning power may have other long-term positive effects besides their immediate effect on family incomes. As wives and husbands become more able to earn similar amounts in the labor market, it encourages a more equal balance between them in terms of responsibilities for earning money, household tasks, and child care. Fathers are becoming more involved in child-rearing than in the past. Women are better able to support their families in the event of widowhood, divorce, or their husbands' disability or unemployment. Moreover, as women gain more (and more continuous) market work experience, their earning potential also increases. Young women, expecting to spend more time in the labor market, increasingly prepare themselves for more skilled and higher-paying jobs. These developments all work to increase the long-term security of women and their families.

In the meantime, both employers and public policy-makers need to continue to search for creative ways to help productive workers also function as effective parents and responsible family members. If families and children are going to withstand the stresses of these trends, employers and public policy makers have a responsibility to do everything they can to help parents balance work and family. Workplaces and work hours must become more flexible, parents need more supports and more choices, and more children need to live with both parents in their lives.

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RECORD TYPE: PRESIDENTIAL (NOTES MAIL)

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The Clinton Economic Agenda: Progress and Prospects

Dr. Janet Yellen
Chairman, President's Council of Economic Advisers
Eastern Economics Association
Boston, Massachusetts
March 13, 1999

Thank you. It is a pleasure to be here. I'd like to discuss the connection, if any, between economics as practiced at academic institutions and economics as practiced in Washington. My focus will be on the macroeconomic policy goals laid out in the Employment Act of 1946, which created the Council of Economic Advisers. When I started to think about how to organize such a talk I did the standard academic thing and looked at the literature. And I found some useful models, all either prepared for or subsequently reprinted in the *Journal of Economic Perspectives.*

In a lecture entitled "What Central Bankers Could Learn from Academics—and Vice Versa" Alan Blinder asks two pertinent questions: 1) Is the training we give and the research we do in the academy useful in actual policymaking (in his context monetary policymaking)?; and 2) Could it be more useful if academics and policymakers would change their ways? After giving a "yes, but..." answer to each question, Blinder concludes by quoting Alfred Marshall to the effect that exact scientific reasoning seldom brings us very far on the way to the conclusion for which we are seeking, but that it would be foolish not to use it at all. "Trained common sense" is Marshall's phrase for what is needed, and Blinder suggests that we would be better off if policymakers paid more attention to the training part and academics paid more attention to the common sense part. This conclusion is echoed in Charlie Schultze's essay prepared for the JEP's symposium on the fiftieth anniversary of the Council of Economic Advisers entitled, "The CEA: An Inside Voice for Mainstream Economics." Schultze describes his continuing amazement at how few participants in Washington policy debates have a grasp of fundamental economic principles and how different from economists they analyze issues. He concludes that while it is important for the

CEA to be well acquainted with the latest research, its greatest value added may be the injection of basic principles, well back from the frontiers of that research, into the debate.

So what is the "trained common sense" that academic economists have to offer? In microeconomics, the answer is fairly straightforward and pretty uncontroversial among economists. It revolves around the value of efficiency as a policy goal and the importance of getting incentives right. How successful economists have been at injecting these principles into the policy debate is less clear. In his 50th anniversary review essay, former CEA chairman Herb Stein concludes that microeconomic advice from the CEA has been important and successful. Schultze also identifies some important long-term successes, but more typically, he argues, the outcome is to convert a policy from, say, fifth-best to third-best by suggesting more efficient ways of achieving some objective, or making the achievement of a "bad" objective less harmful. My immediate predecessor as CEA chairman, Joe Stiglitz, wrote an essay based on his experiences in which he asked why it is so difficult to implement even Pareto improvements.

The CEA's role in nudging the policy process toward efficiency is important, and I am proud of our ongoing efforts in that regard. But the main role of the CEA as envisioned in the Employment Act is to give the President advice on macroeconomic policy. Indeed, as my friend and teacher James Tobin once observed, it takes a lot of Harberger triangles to fill an Okun gap. In the rest of my remarks I would like to discuss some of the major macroeconomic developments of the past few years, and the challenges going forward, within the framework of trained common sense that I believe is appropriate for advising Presidents.

The Employment Act of 1946, which created the Council of Economic Advisers, requires the President to submit an *Economic Report* to the Congress each year. Preparation of this report is a central function of the Council of Economic Advisers, and it is always a worthwhile endeavor because it gives us a chance to reflect in an organized way on economic developments in the American and world economy and to explain the economic logic of the

Administration=s agenda.

In addition to giving us the responsibility for producing an annual report, the Employment Act, together with its later amendments, also gave the Federal government responsibility for stabilizing short-run economic fluctuations, promoting balanced and noninflationary economic growth, and fostering low unemployment. One purpose of the *Economic Report* is to tell Congress whether we have met those responsibilities. Last year was a year for baseball home-run records, and it was also a year for economic records. We were especially happy to be able to report this year--the fifty-third year after the Act--that we achieved the longest peacetime economic expansion on recordCand the records go back to 1854. You might think of the red cover of this year=s *Economic Report* as symbolizing the Ared-hot economy.@

In our view, the Nation's economy is the strongest it has been in a generation. In 1998, growth was impressive, and job creation was vigorous while inflation declined. Real GDP grew 3.9 percent. Nonagricultural jobs increased by about 2.9 million during the year, and the average unemployment rate for the year dropped to 4.5 percent, its lowest level since 1969. The consumer price index rose by only 1.6 percent, its smallest increase since 1964, and other measures of inflation were even more muted.

As you all know, this year the Federal budget moved strongly into surplus. In the 1992 fiscal year the budget deficit was $290 billion and expected to rise further with no change in policy. But beginning in 1993, the deficit began to decline steadily as a consequence of a shift to fiscal discipline. In 1998, the budget *surplus* was $69 billion, the largest surplus as a share of GDP since 1957, and surpluses are projected well into the future: the Administration now projects surpluses in the unified Federal budget amounting to about $4.5 trillion over the next 15 years. I will return to the budget and the use of those surpluses to address demographic challenges in a few minutes.

The current economic expansion is only the third on record that has lasted at least 7 years. This year=s report puts the expansion in its historical context by comparing it with the other two long expansions--the 106-month long expansion of the 1960s (the longest in peace or war) and the 92-month long expansion of the 1980s. Judged in terms of overall economic performance this expansion has been not only long but excellent--especially with respect to inflation and unemployment. By this time in the expansion of the 1960s, for example, inflation was rising sharply and was much higher than now, at about 5%. In the 80s expansion, inflation was also rising at this stage and had reached 5%. By contrast, inflation now is much lower and has been coming down. Since the need to combat high or rising inflation is what typically brings an expansion to an end, this greatly raises the prospects for a continuing expansion.

This is also an expansion that is investment-driven--to a far greater extent than in either of the other two long expansions. This investment is contributing to improvements in productivity and future growth and it is working to hold inflation down.

Finally, continued strong growth in 1998 is all the more remarkable because it took place at a time of considerable stress to the world economy. A third of all world economies were in outright recession or experiencing markedly slower growth by late 1998. After growing at 4.2% in 1997, world economic growth slowed to an estimated 2.2 percent in 1998, a pace comparable to the growth rates registered during the pronounced world slowdowns of 1974-75, 1980-83, and 1990-91. Our trade deficit rose and exports declined, particularly to countries in East Asia, producing a drag on economic growth and inflicting hardship on some sectors of the U.S. economy. The international environment remains exceptionally risky, with the prospects for growth in Europe, for a recovery Japan and for a pickup in activity in crisis afflicted countries highly uncertain. Even so, we believe that the U.S. economy has entered 1999 on course to continue growing and the chances are good that next year at this *time we will be on the verge of marking the longest economic expansion, whether in peace or war, ever.*

I believe that the macroeconomic performance that I've described and the policies that have been pursued since 1993 can be understood within a relatively simple macroeconomic policy framework. Right from the start, the Administration chose to pursue a policy of deficit reduction. The objective was to accelerate the sluggish recovery from the 1990-91 recession by bringing down interest rates and stimulating private investment. Although this has been the only one of the three long post-war expansions in which fiscal policy was contractionary, our standard IS-LM model teaches us that an appropriately accommodative monetary policy can allow the economy to expand under such circumstances. And this is just what happened. The model also teaches us that the combination of a tight fiscal policy and an accommodative monetary policy--a switch in the monetary/fiscal mix--should produce lower interest rates, tilt the composition of output toward investment and thereby promote long-term growth. And, as I have mentioned, the contribution of investment to GDP growth has been quite substantial in this expansion.

One of the pleasant surprises of this expansion has been the continued good behavior of inflation. Based on standard statistical estimates of the NAIRU, the economy had entered incipient inflationary territory by the end of 1994 when the unemployment rate fell to 5.5 percent, yet actual inflation continued to fall well into 1998 as the unemployment rate fell another point. Although the NAIRU is an indicator of the risk of inflation, estimates of the NAIRU have a wide band of uncertainty and should not rigidly dictate policy. The recent behavior of inflation and unemployment provides a good example of the limits of rigorous science and the importance of the prudent application of trained common sense, especially in formulating the Administration's economic forecast.

The economic forecast is a key ingredient in the preparation of the budget. Back in 1993 this Administration consciously decided to establish a reputation for using credible economic forecasts so that budget balancing efforts--and now proposals to use the emerging budget surpluses--would not be based on rosy scenarios. This means that, as we go about making our forecast, we would prefer to err on the conservative side. That means that we do not turn our backs on our training and assume that we are in a new era in which all the old economic relationships no longer hold. But common sense suggests giving modest weight to recent experience with tame inflation even as the unemployment rate is well below central tendency estimates of the NAIRU and with uncharacteristically strong late expansion productivity growth.

On balance, however, our forecast projects slower growth with a slight rise in the unemployment rate and a modest pickup in inflation. GDP is projected to grow at a 2.0% rate on average over the next 3 years in comparison with the roughly 3.9% average pace of the last three years. We project that unemployment will edge up slightly. We also anticipate that the CPI will rise at a 2.3% annual rate next year and thereafter--close to the increase in the core CPI over the past year. This reflects our expectation that some of the special factors, including plunging oil and import prices, which depressed inflation this year will contibute less in containing inflation next year and thereafter. After 2001, we project that real GDP growth will resume growth at our estimate of trend--2.4%, and the unemployment rate is projected to stabilize at 5.3%.

Our forecast is similar to the Congressional Budget Office, the Blue Chip, and other private forecasts, although perhaps a touch on the conservative side in its assumptions about the pace of sustainable growth. A natural question is why we forecast a slowdown in growth when the extent of momentum in domestic demand has been extraordinary and we ended the year with GDP growing at a stunning 6.1% pace in the fourth quarter. Our forecast of more moderate growth going forward reflects our view that several components of domestic demand may be poised to grow at slower rates, for reasons that are articulated in standard macroeconomic courses. In particular, consumption, which constitutes two-thirds of output, has been growing well in excess of income, so that the personal saving rate has declined to zero. In our view, this largely reflects stock-market gains via the wealth effect. Unless the stock market continues to surge, the impetus from wealth on consumption is likely to wane, so that consumption will moderate to match the growth of income. As for business investment, the usual accelerator model suggests that slowing consumption growth, coupled with a capacity utilization rate which is now below its historical average, may exert some restraint on the demand for new investment goods. The past year=s boom in housing starts reflects strong income gains and the impact of lower mortgage rates, but it has elevated housing starts well above their demographic fundamentals. We therefore expect some restraint going forward in this component of demand as well.

One of the key questions in preparing the forecast concerns the trend pace of productivity growth. The official measure of productivity in the nonfarm business sector has grown at about a 2% annual rate over the past 3 years, substantially above the 1.1% annual growth rate between the business cycle peaks of 1973 and 1990 and the approximately 1.3% pace from 1990 thru 1998. Investment growth has been exceptional, and capital accumulation should work to boost productivity. However, cyclical factors also affect productivity. Productivity growth is usually slow during recessions, rapid in the middle of an expansion and tapers off in advance of the business cycle peak. Strong productivity growth over the last three years could reflect strong output growth. On the other hand, productivity has grown even faster than would be anticipated based on cyclical factors and it is perfectly possible that the growth rate of trend productivity has risen. The extraordinarily low rates of inflation as measured by the price indexes for GDP and personal consumption expenditures in the national income and product accounts, combined with healthy profits also suggest faster productivity growth than our forecast assumes. In this sense, our productivity growth assumption is conservative and I can only hope that reality shows that we were wrong.

Nothing matters more to living standards over the long run than the pace of productivity improvement, and an increase in the trend pace of productivity of even a tenth or two is of enormous importance for the long-term outlook for real wages and per capita income.

This brings up another encouraging development in the current expansion: the favorable impact of a strong labor market on low-wage and minority workers. It was once commonly accepted that an economic expansion is a rising tide that lifts all boats, so that the most surefire way to alleviate poverty and help disadvantaged groups was to keep the economy expanding. However, in the late 1970s, a new, long-term trend toward widening inequality began to afflict the economy, most likely as a consequence of pervasive technological changes raising the demand for skilled labor and lowering the demand for unskilled workers. In addition, productivity growth declined substantially, for reasons that are still not well understood. During the expansion of the 1980's, real wages declined, particularly among less skilled men. During the current expansion, we saw real wages continue to stagnate for the first five years of the expansion. However, this has finally become an expansion in which a rising tide is lifting all boats. Wage growth has been particularly strong for historically disadvantaged groups. After years of decline, the real wages of black men began to increase in 1993, and they have risen by 5.8 percent in the last 2 years (since 1996). Black women and Hispanic men and women have also experienced recent gains. The tight labor market of the 1990s appears to be helping even young minority workers, who suffered greater wage declines than others in the 1980s. In 1998 alone, the real wages of young black men aged 16-24 rose by 6.2 percent.

It is too early to declare victory in reversing adverse long-term trends in wages for less skilled workers and to parse out just how much of this turnaround is due to particularly favorable business cycle conditions. Beyond strong labor market conditions, the Adminstration, right from the beginning, has emphasized the importance of investments, not only in plant and equipment but also in the education and training of the labor force to reverse the trend toward rising wage inequality.

Let me turn in the time I have left to two very important issues that we currently face: maintaining fiscal discipline in an era of budget surpluses, and meeting the international challenge.

Preserving fiscal discipline is critical if we are to prepare our nation to meet the needs of an aging population. The ratio of employed workers to retirees has fallen from about 5 to 1 in 1960 to 3-1/2 to 1 today. In only 30 years time, it will be just 2 to 1 and still falling. The same demographic effects that have impaired the finances of Social Security also impact Medicare and Medicaid.

As you know, in his State of the Union the President proposed a plan for how to use the currently projected unified budget surpluses and how to address the financial imbalance of the Social Security system. He proposed devoting 62% of the surpluses over the next 15 years--about $2.8 trillion with a small portion, about 1/4, devoted to equity purchases--to extend the solvency of the Social security system until 2055. Further reforms would be needed to achieve full 75 year actuarial balance, which is the most commonly used measure of financial soundness.

Assuming that a solution for social security can be achieved, the President has also proposed using 15% of the projected surpluses for Medicare, ensuring the Medicare Trust Fund is secure for another 20 years. The President has emphasized the need to utilize the extra funding as part of a broad effort to strengthen the Medicare program. He also proposed creating a new system of universal savings accounts (USA Accounts) outside of Social Security with 12 percent of the surplus to help working Americans build wealth to meet their retirement needs--a way of strengthening the current pension system and helping Americans save. The government would provide an equal dollar contribution for most working individuals and provide matches for individual contributions with larger matches going to lower income workers. Finally, the President would reserve 11 percent of the projected surpluses for military readiness and education and research.

Rather than commenting in detail on the President's Social Security plan, let me talk about the overall macroeconomic impact of this plan. Here the simple Solow growth model helps keep us focused on the key issues of national saving and investment and provides a framework for estimating economic payoffs. For the nation as a whole, the central problem in coping with an aging population is to provide a high standard of living for both workers and retirees even though a smaller share of the population will be in the workforce. A natural solution is to make workers more productive by increasing investment in both physical and human capital, which will, in turn, raise labor productivity. In doing so, we can boost the size of the total economic pie, which is the prerequisite to meeting the retirement costs of the baby boom generation without unduly burdening future workers. The key to accomplishing this is to increase national saving, a goal to which continued fiscal discipline would contribute.

National saving increased from 3.1 percent of gross domestic product in 1992 to 6.7 percent in the first three quarters of 1998, but the improvement is accounted for entirely by the elimination of the federal budget deficit, as private saving actually declined relative to total output with the personal saving rate hitting zero in the last quarter of the year. The framework offered by the President for the use of emerging budget surpluses would dramatically increase national saving. Evaluated from a macroeconomic perspective--from the perspective of national savings--this plan saves, in essence, between 77 and 89 percent of the projected surpluses, depending on one's evaluation of the saving impact of the USA accounts. The transfers to Social Security and Medicare amount to 77 percent of the federal budget and about 2 percent of GDP, and they are pure additions to national saving. The USA accounts amount to 12 percent of the unified budget surpluses and could be viewed as a tax cut that is highly likely to add to personal saving. Only 11 percent of the surpluses are devoted to additional government spending.

Dedicating the surpluses to Social Security and Medicare serves two purposes. First, it helps to lock in the surpluses so they are not used for tax cuts or wasteful spending. Second, it gives these critical programs a "first call" on the benefits of our fiscal discipline. And these benefits will be large.

This is a fiscally conservative, pro-growth plan that comes close in its macroeconomic impact to a plan of simply paying off debt. Publicly held debt is projected to fall from 44 percent of GDP today to about 7 percent in 2014. That would represent the smallest burden of government debt on the economy since the United States entered World War I in 1917. In addition, some of the surpluses will be used to purchase equities, which will represent an asset of the government. The dramatic decline in national debt would increase private capital investment, keep interest rates low or drive them lower, raise future national income, free up government resources by reducing debt servicing costs and fuel economic growth. We have estimated, for example, that in comparison with the exploding ratios of debt to GDP forecast back in 1993, the President's plan, which substitutes productive capital assets in private portfolios for unproductive debt would lower interest rates by about 2.5%. Even compared to a more optimistic baseline, in which we assume that the political process would have achieved budget savings sufficient to hold the debt to GDP ratio at 50%, the President's plan lowers interest rates by 1-1.25% by 2014 and would raise GDP by 3.5-4.5%--a substantial increase in the size of the pie.

Let me conclude by saying just a few words about the challenges we face on the international economic front and then stop and take a few questions.

A critical challenge for the United States now is to insure that, at this time of economic fragility in so many regions, we do not build new walls of protectionism here, that could set off a dangerous chain reaction around the world, imperilling the world's prospects for growth while harming our own exporters and consumers. The crisis has taken a toll on some sectors in the United States, steel being notable example. U.S. trade law recognizes that imports can sometimes be associated with labor displacement and it provides for several kinds of relief. We recognize that as the crisis countries recover their demand for U.S. goods and services will revive, once again fueling our own export growth.

Beyond keeping markets open, the Administration believes that a serious program of reform is needed to strengthen the underpinnings of international financial system to make it less crisis prone and to improve the mechanisms available for dealing with any crises that may nevertheless occur. Unfortunately, there is just no silver bullet--no simple solution that would guarantee countries the benefits of global capital flows while eliminating the risk that a crisis of confidence could once again result in the painful withdrawal of that access. Nor have reform efforts fully come to grips with the policy implications of an unpleasant impossibility theorem enshrined in most macro texts. According to standard open economy macroeconomic models three key policy goals of many emerging market countries -- capital mobility, scope for an independent monetary policy, and stability of exchange rates-- are mutually incompatible.

Even so, international agreement is finally emerging on the steps that can and should be taken to strengthen the architecture of the financial system so that it is less crisis-prone going forward. The needed steps include measures to increase transparency and accountability in the operations of individual countries, of financial and corporate institutions and of the international financial institutions themselves to enhance the availability, relevance and reliability of information available for evaluating risk in lending. Reforms are also needed to strengthen the prudential supervision and regulation of banks and other domestic financial institutions*: to create stronger incentives for borrowers and lenders to weigh risk and act with appropriate discipline, thereby reducing the odds of a crisis. Countries will need to reassess implicit and explicit government guarantees which create moral hazard and exacerbate risktaking, including the implicit promise of bailouts of corporations considered too big to fail, and semi-fixed exchange rate regimes which reduced the perceived riskiness of foreign currency exposure. Finally, measures are needed* to improve creditor coordination in crises and to promote the orderly, cooperative and equitable resolution of international financial crises that may occur in the future. The United States is working intensively with key emerging markets, with other industrialized nations, and the relevant international organizations, to put in place the building blocks of this new architecture to ensure that the unprecedented growth, increase in welfare and opportunity experienced in the 50 years after the creation of the Bretton Woods system are maintained in the future.

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TO: Janet L. Yellen@eop (Janet L. Yellen@eop [CEA])
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TEXT:
janet,
here is a rough first draft of the speech. it is a bit on the long side and still obviously needs smoothing and polishing. but i thought i would send it to you now so that you could see whether you like the basic thrust of it and to get your macro comments. if you think this is headed in the right direction, i am happy to work on it more to smooth it and tighten it up -- (or alternatively to scrap it and retool in a direction more to your liking.). hope this is helpful for starters. best, audrey================== ATTACHMENT 1 ==================
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TEXT:
Remarks of Janet Yellen
Chair of the President's Council of Economic Advisers
To In Counsel with Women
Wednesday, May 19, 1999

Thank you. It is a pleasure and an honor to be here with so many impressive wo men executives and future executives. I want to congratulate "In Counsel with W omen" for the interesting and important events it organizes to give executive w omen perspectives on business, the economy and their role as leaders. Women are indeed poised to lead the nation's industries and new ventures into the 21st C entury. Recognizing today's women leaders and supporting and encouraging tomorr ow's will help pave the way for greater participation by women in the business and financial worlds.
Particularly at this moment in history, women have an unprecedented opportunity to succeed as economic leaders and full participants in the nation's prosperit y. Our nation's economy is the strongest it has been in a generation. In 1998, growth was impressive, and job creation was vigorous while inflation declined. Real GDP grew 3.9 percent. Nearly 3 million new jobs were created. The unempl oyment rate dropped to 4.5 percent -- its lowest level since 1969. And the con sumer price index rose by only 1.6 percent, its smallest increase since 1964. A s you all know, this year we achieved a budget surplus of $69 billion, the larg est surplus as a share of GDP since 1957, and surpluses are projected well into the future. The Administration now projects surpluses in the unified Federal b udget amounting to about $4.5 trillion over the next 15 years.
Importantly, our current economic expansion - the longest peacetime expansion s ince we began keeping records in 1854 - is an extraordinarily healthy one. Unli ke the previous long expansions we have enjoyed in our nation's history, this e xpansion enjoys a combination of low inflation and low unemployment is particul

arly remarkable and shatters long held views and simple textbook theories about
the possibility of combining low unemployment and inflation. In fact, the mis
ery index, which is the sum of inflation and unemployment, is lower at this sta
ge of the current expansion than in either the previous long expansions of the
60s or the 80s. This is also an expansion that is investment-driven--to a far
greater extent than in either of the other two long expansions. This investmen
t is contributing to improvements in productivity and future growth and it is w
orking to hold inflation down.
That healthy economic environment has meant rich and fertile soil upon which wo
men businesses have been able to build and grow. Indeed, the enormous contribu
tion to the growth of the economy by women entrepreneurs, innovators and execut
ives is unmistakable: today women own nearly 40% of all firms in the United Sta
tes. These eight million women-owned firms contribute $2.3 trillion to the econ
omy and employ 18.5 million people - that is one in every five workers. And wom
en are starting business at twice the rate of all businesses.
And the future for women-owned businesses and for the economy overall is bright
. Although we expect some slowing of GDP growth, our forecast through the year
2007 looks for a continuation of the economic expansion with further employment
and real wage growth.
In my remarks today, I would like to focus on some of the characteristics of th
is extraordinary expansion and how recent economic developments have affected i
n very tangible ways the lives of women and families. I would like to discuss s
ome of the new opportunities and successes women have seen, some of the challen
ges that remain, and some of the future issues that we need to tackle together.

Opportunities for Women Today.

Women today play an unprecedented role in our nation's economy. Women work for
pay in greater numbers, in more occupations and for more years of their lives
than ever before. They make up nearly half of the work force. Over 60% of women
16 and older were in the labor force last year. And according to the Labor Dep
artment, 99% of women will work for pay at some point in their life.

Those statistics may not seem that dramatic to some of the younger women here
- so let me just cite one statistic to give people a sense of how dramatically
things have changed. In 1969, just 38% of married mothers worked for pay. In 19
96, 68% did so.

More important than the number of women working is that the entry of more wome
n into the workforce has also corresponded with women getting more, better educ
ation, and moving into higher-skilled jobs and managerial positions. Women earn
more college degrees than men and now outnumber men in graduate school. Today,
while women still account for 98.5% of the secretaries in the nation, they als
o make up 44% of the people in executive, administrative and managerial occupat
ions. An increasing number of women are going into business for themselves. The
re have been more new women-owned businesses created in each of the last five y
ears than in any previous year. Last year 3.5 million women were self-employed.

Women overwhelmingly like their work: According to a recent survey by the Depa
rtment of Labor, 79% of working women surveyed said they either "love" or "like
" their jobs. And more, better work has allowed women more financial independen
ce. Women's homeownership has increased 14% with 1.9 million new women homeowne
rs since the first quarter of 1994.

This Administration is committed to continuing to support the increase of oppo
rtunities for women. The President and Vice President have led the way in drama

tically increasing our investment in education, placing new emphasis on life-lo
ng learning to enable workers to upgrade their skills constantly, and helping o
ur children get access to the technology and tools that they need to prepare th
emselves for the high-paying jobs of the future.

On the topic of technology, I'd like to say a few words about the emerging "Di
gital Economy" in which we are increasingly operating and the opportunities it
offers for women.

Today more Americans assemble computers than cars. More Americans process data
than refine petroleum. By the year 2000 - that's just seven months away - 60%
of all new jobs will require technology skills. And those jobs will pay on aver
age XX% more than jobs that don't require technology. Big companies like Hewlet
t-Packard and Cisco Systems estimate they save on the order of $200 million a y
ear through use of the Internet to receive customer orders, deal with suppliers
and subcontractors, and communicate with their own employees around the world.

In the next four years, it is estimated that electronic commerce - the buying
and selling of goods across the Internet - will amount to $1.3 trillion just i
n business-to-business transactions in the U.S. As many of us know from our pe
rsonal experiences, we are increasingly turning to sites like Amazon.com or E-b
ay for our purchases of books and other items. And e-mails now dwarf the number
of communications sent via snail-mail.

The reason I cite these developments to highlight a huge new economic opportun
ity that women executives of today and of tomorrow must not overlook. Whether i
t is a small specialty antique store here in Cleveland that expands its custome
r base by displaying its wares on the Internet as well as in the storefront win
dow - or a fledgling software company that will become the Amazon.com of tomorr
ow, women can and should see E-commerce and the Internet as a huge new business
opportunity where the barriers to entry are very low and the potential rewards
extremely high.

The Administration, under the direction of the Vice President, is leading an e
lectronic commerce initiative to ensure that this continues to thrive as an ope
n, competitive medium that continues to empower entrepreneurs - large and small
- to make the most of the opportunities in the Information Economy.

In fact, later this month, the Administration is hosting a conference on the D
igital Economy to better understand the new economic forces at work and how to
measure them. In addition, the Administration is undertaking a new initiative s
pecifically targeted at helping small businesses make the most of electronic co
mmerce and the global opportunities it presents. I urge all of you to make sure
that you educate yourselves to make the most of electronic commerce for your b
usinesses and ventures - whether it is advertising on the Internet, using the I
nternet to bid for business, or launching your own Internet business. It is a t
remendous opportunity and one that women should maximize.

CHALLENGES

Even as we explore these new horizons now available to women executives, women
-owned firms, and women workers in all industries, we must also be mindful of s
ome of the challenges that still remain.

One such challenge is the ongoing efforts to achieve pay equity for women. Alt
hough the gap between women's and men's wages has narrowed substantially since
the signing of the Equal Pay Act in 1963, there still exists a significant wage
gap that cannot be explained by differences between male and female workers in
labor market experience and in the characteristics of jobs they hold. After h
overing at about 60% since the mid 1950s, the ratio of women's to men's median

pay began to rise in the late 1970s and reached about 70% by 1990. The gender p
ay ratio is currently on the rise again, surpassing 75% in 1997. Particularly
as women have pursued higher levels of education and have greater labor market
experience, the wage gap has narrowed significantly.

However, even after accounting for differences in skills and experience that w
omen bring to the labor market, there is still about a 12% "unexplained" differ
ence. Studies that have examined this unexplained difference consistently find
evidence of ongoing discrimination in the labor market and support the conclusi
on that women still face differential treatment on the job. Moreover, we contin
ue to see that the relationship between family status and pay is different for
men and women. While married men, most of whom have children, typically earn mo
re in the labor market than unmarried men, for women the relationship is revers
ed.

In addition, as working women and mothers, many of us know that while we may l
ove our jobs, life seems increasingly stressful and complicated when trying to
balance a family and work outside the home. Indeed, 74% of women who hold profe
ssional and managerial jobs said that stress was their number one problem, acco
rding to the Labor Department's recent survey.

In fact, the average two-parent family spends 18% more time at work today than
it did in 1969. For single parents, the increase is an even more dramatic 28%
-- or 297 additional hours at work every year.

For those parents who are able to afford to pay for time saving services and a
ppliances, the increase in hours of work has not necessarily led to less time a
vailable to spend with their children. But for lower-income parents, the additi
onal work make it much harder for them to spend time with their children. And f
or most families, the additional amount of work outside the home has translated
into less flexible schedules to respond to family needs - contributing to the
feeling of stress that so many working women cited.

Among the developments in the labor market to respond to this situation is an
increase in flexible work arrangements. In 1997, 28% of full-time wage and sala
ry workers had flexible work schedules - up sharply from just 15% in 1991. The
Federal government has led by example, instituting "flextime" to allow employee
s some discretion when they work their allotted hours. The President has propos
ed a flextime initiative that would allow all workers to take "time-and-a-half"
overtime compensation in the form of compensatory time off whenever they need
it for family or medical leave purposes or vacation - instead of cash.

The Administration has also played a major role in increasing flexibility amon
g families by helping enact the Family and Medical Leave Act, which enables wor
kers to take up to 12 weeks unpaid leave to care for a new baby or ailing famil
y member without jeopardizing their jobs. Since its inception in 1993, millions
of workers have taken advantage of the FMLA to spend necessary time with their
families. The Administration has also proposed expanding FMLA to allow workers
up to 24 hours per year for parent-teacher conferences or to accompany a child
, spouse or elderly parent for routine medical and dental care.

Policy makers, employers, and leaders like yourselves must continue to work tog
ether to search for creative ways to help people in the workforce also function
as effective parents and responsible family members. If families and children
are going to withstand the stresses of these trends, employers and public polic
ymakers have a repsonsibility to do everything they can to help parents balance
work and family. Workplaces and work hours must become more flexible and paren
ts need more supports and more choices.

FUTURE CHALLENGES:

I would like now to talk for just a few minutes about one of the key challenges
 we face as a nation: namely, preparing ourselves to meet the needs of an aging
 population. The ratio of employed workers to retirees has fallen from about 5
to 1 in 1960 to 3-1/2 to 1 today. In only 30 years time, it will be just 2 to
1 and still falling. The same demographic effects that have impaired the finan
ces of Social Security also impact Medicare and Medicaid.

These changes are especially important for American women, because, on average,
 women live longer than men, earn less and retire with smaller pensions and few
er savings. It is therefore very important that women leaders such as yourselve
s, understand the challenges we face, and engage actively in the discussions to
 find the right solutions to meet these challenges.

As you know, in his State of the Union the President proposed a plan for how to
 use the currently projected unified budget surpluses and how to address the fi
nancial imbalance of the Social Security system. He proposed devoting 62% of t
he surpluses over the next 15 years--about $2.8 trillion with a small portion,
about 1/4, devoted to equity purchases--to extend the solvency of the Social se
curity system until 2055. Further reforms would be needed to achieve full 75 y
ear actuarial balance, which is the most commonly used measure of financial sou
ndness. Assuming that a solution for social security can be achieved, the Pre
sident has also proposed using 15% of the projected surpluses for Medicare, ens
uring the Medicare Trust Fund is secure for another 20 years. The President ha
s emphasized the need to utilize the extra funding as part of a broad effort to
 strengthen the Medicare program. He also proposed creating a new system of un
iversal savings accounts (USA Accounts) outside of Social Security with 12 p
ercent of the surplus to help working Americans build wealth to meet their reti
rement needs--a way of strengthening the current pension system and helping Ame
ricans save. The government would provide an equal dollar contribution for mos
t working individuals and provide matches for individual contributions with lar
ger matches going to lower income workers. Finally, the President would reserv
e 11 percent of the projected surpluses for military readiness and education an
d research.

Rather than commenting in detail on the President's Social Security plan, let m
e talk about the overall macro-economic impact of this plan. For the nation as
a whole, the central problem in coping with an aging population is to provide a
 high standard of living for both workers and retirees even though a smaller sh
are of the population will be in the workforce. A natural solution is to make
workers more productive by increasing investment in both physical and human cap
ital, which will, in turn, raise labor productivity. In doing so, we can boost
 the size of the total economic pie, which is the prerequisite to meeting the r
etirement costs of the baby boom generation without unduly burdening future wor
kers. The key to accomplishing this is to increase national saving, a goal to
which continued fiscal discipline would contribute.

National saving increased from 3.1 percent of gross domestic product in 1992 to
 6.7 percent in the first three quarters of 1998, but the improvement is accoun
ted for entirely by the elimination of the federal budget deficit, as private s
aving actually declined relative to total output with the personal saving rate
hitting zero in the last quarter of the year. The framework offered by the Pre
sident for the use of emerging budget surpluses would dramatically increase nat
ional saving. Evaluated from a macro-economic perspective--from the perspectiv
e of national savings--this plan saves, in essence, between 77 and 89 percent o
f the projected surpluses, depending on one's evaluation of the saving impact o
f the USA accounts. The transfers to Social Security and Medicare amount to 77
 percent of the federal budget and about 2 percent of GDP, and they are pure ad
ditions to national saving. The USA accounts amount to 12 percent of the unifi

ed budget surpluses and could be viewed as a tax cut that is highly likely t
o add to personal saving. Only 11 percent of the surpluses are devoted to addi
tional government spending.
Dedicating the surpluses to Social Security and Medicare serves two purposes.
First, it helps to lock in the surpluses so they are not used for tax cuts or w
asteful spending. Second, it gives these critical programs a "first call" on t
he benefits of our fiscal discipline. And these benefits will be large.
This is a fiscally conservative, pro-growth plan that comes close in its macroe
conomic impact to a plan of simply paying off debt. Publicly held debt is proj
ected to fall from 44 percent of GDP today to about 7 percent in 2014. That wou
ld represent the smallest burden of government debt on the economy since the Un
ited States entered World War I in 1917. In addition, some of the surpluses wi
ll be used to purchase equities, which will represent an asset of the governmen
t. The dramatic decline in national debt would increase private capital invest
ment, keep interest rates low or drive them lower, raise future national income
, free up government resources by reducing debt servicing costs and fuel econom
ic growth.
The age wave presents an important challenge to our government, our economy and
 our nation. But the challenge can be met. We have the creativity and the resou
rces to make the necessary adjustments in our public policy and in our lives. B
oth workers and retirees can enjoy higher standards of living in the next centu
ry than we enjoy today. Achieving this goal will be much easier, however, if we
 take action today.
Together with our other policies to sustain economic growth, these investments
in the future will help keep our economy strong. That in turn will help women s
tart new businesses, expand existing businesses, create new jobs, and extend ec
onomic opportunity to more Americans. Your contributions as leaders, innovator
s, entrepreneurs and managers is a critical part of our success. We salute you.
 We wish you every success. And we want you to know that we will do our very
best to create the conditions you need to succeed.
Thank you very much.

================== END ATTACHMENT 1 ==================

==================== ATTACHMENT 2 ====================
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 16 May 1999 11:49:09 EST
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 by EOP.GOV (PMDF V5.2-31 #34437) with ESMTP id <01JB9IM139O2000EVY@EOP.GOV>
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by hawk.prod.itd.earthlink.net (8.9.3/8.9.3) with ESMTP id IAA24860; Sun,
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CREATOR: Audrey Choi (CN=Audrey Choi/OU=CEA/O=EOP [UNKNOWN])

CREATION DATE/TIME:17-MAY-1999 19:48:03.00

SUBJECT: please use this version instead

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

TEXT:
janet. please use this version instead. it just catches a few typos.
thanks=================== ATTACHMENT 1 ===================
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Remarks of Janet Yellen
Chair of the President's Council of Economic Advisers
to "In Counsel with Women",
Cleveland, Ohio
May 19, 1999

Thank you. It is a pleasure and an honor to be here with so many impressive women executives and future executives. I want to congratulate "In Counsel with Women" for the interesting and important events it organizes to give executive women perspectives on business, the economy and their role as leaders. Women are indeed poised to lead the nation's industries and new ventures into the 21st century. Recognizing today's women leaders and supporting and encouraging tomorrow's will help pave the way for greater participation by women in the business and financial worlds. Particularly at this moment in history, women have an unprecedented opportunity to succeed as economic leaders and full participants in the nation's prosperity.

Our nation's economy is the strongest it has been in a generation. In 1998, growth was impressive, and job creation was vigorous while inflation declined. Real GDP grew 3.9 percent. Nearly 3 million new jobs were created. The unemployment rate dropped to 4.5 percent -- its lowest level since 1969. And the consumer price index rose by only 1.6 percent, its smallest increase since 1964. As you all know, this year we achieved a budget surplus of $69 billion, the largest surplus as a share of GDP since 1957, and surpluses are projected well into the future. The Administration now projects surpluses in the unified Federal budget amounting to about $4.5 trillion over the next 15 years. Importantly, our current economic expansion -- the longest peacetime expansion since we began keeping records in 1854 -- is an extraordinarily healthy one.

Unlike the previous long expansions we have enjoyed in our nation's history, this expansion enjoys a combination of low inflation and low unemployment that is particularly remarkable and shatters long held views and simple textbook theories about the possibility of combining low unemployment and inflation. In fact, the misery index, which is the sum of inflation and unemployment, is lower at this stage of the current expansion than in either of the previous long expansions of the 1960s or the 1980s. This is also an expansion that is investment-driven -- to a far greater extent than in either of the other two long expansions. This investment is contributing to improvements in productivity and future growth, and it is working to hold inflation down.

That healthy economic environment has meant rich and fertile soil upon which women's businesses have been able to build and grow. Indeed, the enormous contribution to the growth of the economy by women entrepreneurs, innovators and executives is unmistakable: today women own nearly 40% of all firms in the United States. These eight million women-owned firms contribute $2.3 trillion to the economy and employ 18.5 million people -- that is one in every five workers. And women are starting businesses at twice the overal average rate. And the future for women-owned businesses and for the economy is bright. Although we expect some slowing of GDP growth, our forecast through the year 2002 looks for a continuation of the economic expansion with further employment and real wage growth.

In my remarks today, I would like to focus on some of the characteristics of this extraordinary expansion and how recent economic developments have affected in very tangible ways the lives of women and families. I would like to discuss some of the new opportunities and successes women have seen, some of the challenges that remain, and some of the future issues that we need to tackle together.

Opportunities for Women Today

Women today play an unprecedented role in our nation's economy. Women work for pay in greater numbers, in more occupations, and for more years of their lives than ever before. They make up nearly half of the work force. Over 60% of women 16 and older were in the labor force last year. And according to the Labor Department, 99% of women will work for pay at some point in their life. Those statistics may not seem that dramatic to some of the younger women here - so let me just cite one statistic to give people a sense of how dramatically things have changed. In 1969, just 38% of married mothers worked for pay. In 1996, 68% did so.

More important than the number of women working is that the entry of more women into the workforce has also corresponded with women getting more and better education, and moving into higher-skilled jobs and managerial positions. Women earn more college degrees than men and now outnumber men in graduate school. Today, while women still account for 98.5% of the secretaries in the nation, they also make up 44% of the people in executive, administrative and managerial occupations. The representation of women in traditionally male jobs has increased enormously: consider, for example, that between 1970 and 1990 the fraction of women in accounting rose from 25 to 53%, in underwriting, **from 0 to 68%***[is this right? 0%-68%*] and in law, from 5 to 25 percent. An increasing number of women are also going into business for themselves. There have been more new women-owned businesses created in each of the last five years than in any previous year. Last year, 3.5 million women were self-employed.

Women overwhelmingly like their work: according to a recent survey by the Department of Labor, 79% of working women surveyed said they either "love" or "like" their jobs. And more, better work has allowed women more financial independence. Women's home ownership has increased 14% with 1.9 million new women homeowners since the first quarter of 1994.

This Administration is committed to continuing to support the increase of opportunities for women. The President and Vice President have led the way in dramatically increasing our investment in education, placing new emphasis on life-long learning to enable workers to upgrade their skills constantly, and helping our children get access to the technology and tools that they need to prepare themselves for the high paying jobs of the future.

Challenges

Even as we explore these new horizons now available to women executives, women-owned firms, and women workers in all industries, we must also be mindful of some of the challenges that still remain.

One such challenge is the ongoing efforts to achieve pay equity for women. Although the gap between women's and men's wages has narrowed substantially since the signing of the Equal Pay Act in 1963, there still exists a significant wage gap that cannot be explained by differences between male and female workers in labor market experience and in the characteristics of jobs they hold. After hovering at about 60% since the mid 1950s, the ratio of women's to men's median pay began to rise in the late 1970s and reached about 70% by 1990. The gender pay ratio is currently on the rise again, surpassing 75% in 1997. Particularly as women have pursued higher levels of education, have moved into higher-paying occupations, and have accumulated greater labor market experience, the wage gap has narrowed significantly. Women of all ages and education levels have experienced gains in pay relative to their male counterparts, but, interestingly, the gap has narrowed much faster for younger women.

The most recent detailed studies found that as of the late 1980s, about one-third of the gender pay gap was explained by differences in the skills and experience that women bring to the labor market and another 28% was due to differences in industry, occupation and union status among men and women. However, even after accounting for differences in skills and experience that women bring to the labor market, there was still about a 12% "unexplained" difference. Studies that have examined this unexplained difference consistently find evidence of ongoing discrimination in the labor market and support the conclusion that women still face differential treatment on the job. One recent and thorough study finds substantial pay differences between men and women working in the same narrowly defined occupations and establishments. Another finds that pay differences between comparable women and men are simply too large to be explained by productivity differences. And studies on discrimination in hiring offer indirect evidence related to the gender pay gap. One study found that the introduction of "screens" to conceal the identity of candidates from juries in auditions for symphony orchestras markedly increased female musicians' chances of success in such competitions and raised their odds of being hired.

To address the persistent discrimination in pay, the President is urging Congress to pass the Paycheck Fairness Act that has been introduced by Senator Daschle and Congresswoman DeLauro. This legislation would put gender-based wage discrimination on an equal footing with race-based discrimination, by providing full compensatory and punitive damages as remedies for equal pay violations. It would prohibit employers from punishing employees for sharing salary information with their co-workers. It would require the Equal Employment Opportunity Commission to collect pay data from employers identifying the race, sex, and national origin of employees, to aid in enforcing the federal laws against wage discrimination. It would also provide for research on wage discrimination and the establishment of an award to recognize and promote the achievements of employers in eliminating pay disparities between men and women.

In addition, the President's Fiscal Year 2000 budget provides $14 million in funds for the Equal Pay Initiative. $10 million is for the EEOC to increase compliance with equal pay laws, by providing increased training for EEOC employees to identify and respond to wage discrimination claims, increasing technical assistance to businesses on how to meet legal requirements, and launching a public service announcement campaign to inform employees and employers of their rights and responsibilities. Another $4 million is for the Department of Labor to assist federal contractors in recruiting and retaining qualified women in non-traditional occupations.

In addition, as working women and mothers, many of us know that while we may love our jobs, life seems increasingly stressful and complicated when trying to balance a family and work outside the home. Indeed 74% of women who hold professional and managerial jobs said that stress was their number one problem, according to the Labor Department's recent survey.

In fact, the average two-parent family spends 18% more time at work today than it did in 1969. For single parents, the increase is an even more dramatic 28% -- or 297 additional hours at work every year. Virtually all of the increase in families' market hours of work has come from women. There has been a dramatic shift of mothers' time from the household to the labor market and the shift has been largest for college educated women and for women with young children.

For those parents who are able to afford to pay for time saving services and appliances, the increase in hours of work has not necessarily led to less time available to spend with their children. But for lower-income parents, the additional work makes it much harder for them to spend time with their children. And for most families, the additional amount of work outside the home has translated into less flexible schedules to respond to family needs -- contributing to the feeling of stress that so many working women cited.

Among the developments in the labor market to respond to this situation is an increase in flexible work arrangements. In 1997, 28% of full-time wage and salary workers had flexible work schedules -- up sharply from just 15% in 1991. The Federal government has led by example, instituting "flextime" to allow employees some discretion when they work their allotted hours. The President has proposed a flextime initiative that would allow all workers to take "time-and-a-half" overtime compensation in the form of compensatory time off whenever they need it for family or medical leave purposes or vacation -- instead of cash.

The Administration has also played a major role in increasing flexibility among families by helping enact the Family and Medical Leave Act, which enables workers to take up to 12 weeks unpaid leave to care for a new baby or ailing family member without jeopardizing their jobs. Since its inception in 1993, millions of workers have taken advantage of the FMLA to spend necessary time with their families. The Administration has also proposed expanding FMLA to allow workers up to 24 hours per year for parent-teacher conferences or to accompany a child, spouse or elderly parent for routine medical and dental care. Policy makers, employers, and leaders like yourselves must continue to work together to search for creative ways to help people in the workforce also function as effective parents and responsible family members. If families and children are going to withstand the stresses of these trends, employers and public policymakers have a responsibility to do everything they can to help parents balance work and family. Workplaces and work hours must become more flexible and parents need more supports and more choices.

Future Challenges

I would like now to talk for just a few minutes about one of the key challenges we face as a nation: namely, preparing ourselves to meet the needs of an aging population. The ratio of employed workers to retirees has fallen from about 5 to 1 in 1960 to 3-1/2 to 1 today. In only 30 years time, it will be just 2 to 1 and still falling. The economic effects of this age wave can be seen on the Social Security and Medicare programs on which most people's attention is now focused; and the overall government budget, of which those programs are a part. Let me address these in turn.

The most commonly used yardstick to measure the financial soundness of the Social Security system is the 75-year actuarial balance. The Social Security actuaries project that the current balance in the trust fund together with projected revenues over the next 75 years will be insufficient to fund the benefits promised under current law. By 2014, tax receipts are expected to fall short of benefits; by 2022 the shortfall is expected to exceed trust fund interest earnings, so the trust fund will begin to decline; and by 2034, the trust fund is expected to be depleted, after which time contributions would still be sufficient to pay about 70 percent of current law benefits. Of course, future taxes and benefits depend on a variety of economic and demographic factors that cannot be predicted perfectly, so the actual problem may be smaller or larger than we now believe. Nevertheless, the intermediate projections of the actuaries imply that the imbalance during the next 75 years amounts to over 2 percent of taxable payroll, or about 1 percent of GDP.

The Medicare system faces bigger problems, even with the improvement in the financial outlook reported last month. The 75-year actuarial imbalance in Medicare is now about 1-1/2 percent of payroll, somewhat smaller in absolute terms than the Social Security imbalance, but a much larger proportion of the current payroll taxes dedicated to the program. The trust fund is now projected to be insolvent by 2015—a marked improvement from last year's estimate of 2008, but still only a decade and a half away. Moreover, the long-term Medicare spending projections assume that the cost of covered health services grows much more slowly in the future than during the past several decades. This scenario implicitly incorporates either significant structural reform of the program or changes in the basic dynamic of U.S. health care spending.

We can also see the effects of the age wave in the long-term projections of the overall government budget. Social Security and Medicare outlays are expected to rise from less than 7 percent of GDP today to nearly 12 percent of GDP by 2050, and to continue rising beyond that. In addition, federal spending in the Medicaid program is expected to rise from 1-1/4 percent of GDP today to 5 percent of GDP by 2050. People often think of Medicaid as financing health care for low-income *young* people, but it is also the major public support for long-term care for the elderly. Funding of nursing home care, home health care, and related services represents a significant share of current Medicaid spending, and spending in these areas is expected to grow rapidly as the population ages. The impact of demographic changes on retirement programs are especially important for American women, because, on average, women live longer than men, earn less and retire with small pensions and few savings. It is therefore very important that women leaders such as yourselves understand the challenges we face, and engage actively in the discussions to find the right solutions to meet these challenges.

As you know, in his State of the Union the President proposed a plan for how to use the currently projected unified budget surpluses and how to address the financial imbalance of the Social Security system. He proposed devoting 62% of the surpluses over the next 15 years--about $2.8 trillion with a small portion, about 1/4, devoted to equity purchases. These actions would bridge more than half of Social Security's long-term funding gap. Further structural reforms would be needed to achieve full 75 year actuarial balance, which is the most commonly used measure of financial soundness.

The President has also proposed creating a new system of universal savings accounts (USA Accounts) outside of Social Security with 12 percent of the surplus to help working Americans build wealth to meet their retirement needs--a way of strengthening the current pension system and helping Americans save. The motivation for these accounts is straightforward: Social Security was never intended to be more than one leg of a three-legged retirement stool, with the other legs consisting of private pensions and household savings. So, along with strengthening Social Security, we need to increase private pension coverage and household savings. USA Accounts would substantially boost savings, especially for lower and middle income Americans who do less saving than higher income Americans, and receive much smaller incentives for saving through the tax code.

Workers and their spouses in low- and moderate-income households would receive an automatic government contribution of $300 into their USA accounts. In addition, voluntary individual contributions would be matched by further government contributions at a rate that declines with income. The government would provide an equal dollar contribution for most working individuals and provide matches for individual contributions with larger matches going to lower income workers.

In his State of the Union address, the President proposed to devote another 15 percent of the projected budget surpluses to Medicare. He explained that, as with Social Security, resolving this program's long-term funding problem will require a combination of additional resources and structural reform. Unfortunately, the National Bipartisan Commission on the Future of Medicare held its final meeting last month without reaching consensus. The President believes that the Commission did valuable work, but he does not support the proposal offered by Senator Breaux and his colleagues.

Instead, the President has asked his advisors to draft a plan for Medicare reform that meets the following objectives. First, we should modernize Medicare and make it more competitive. By adopting the best management and clinical practices from the private sector, we can keep spending growth in line while maintaining high-quality services. Second, Medicare should continue to provide a guaranteed set of benefits without excessive new costs to beneficiaries. Third, we should use savings from these reforms to help fund a prescription drug benefit. Prescription drugs are a standard element of most health insurance plans for working Americans, but many Medicare beneficiaries have no coverage for their medications, or have inadequate or very expensive coverage. Lastly, we must dedicate part of the projected surpluses as general revenue transfers to Medicare. Structural reforms alone cannot meet the demographic and health challenges of the next century, but reforms combined with additional funding can do so.

Finally, the President would reserve 11 percent of the projected surpluses for military readiness and education and research.

Rather than commenting in detail on the President's Social Security plan, let me talk about the overall macroeconomic impact of this plan. For the nation as a whole, the central problem in coping with an aging population is to provide a high standard of living for both workers and retirees even though a smaller share of the population will be in the workforce. A natural solution is to make workers more productive by increasing investment in both physical and human capital, which will, in turn, raise labor productivity. In doing so, we can boost the size of the total economic pie, which is the prerequisite to meeting the retirement costs of the baby boom generation without unduly burdening future workers. The key to accomplishing this is to increase national saving, a goal to which continued fiscal discipline would contribute. National saving increased from 3.1 percent of gross domestic product in 1992 to 6.7 percent in the first three quarters of 1998, but the improvement is accounted for entirely by the elimination of the federal budget deficit, as private saving actually declined relative to total output with the personal saving rate actually turning negative in the first quarter of this year. The framework offered by the President for the use of emerging budget surpluses would dramatically increase national saving. Evaluated from a macroeconomic perspective--from the perspective of national savings--this plan saves, in essence, between 77 and 89 percent of the projected surpluses, depending on one's evaluation of the saving impact of the USA accounts. The transfers to Social Security and Medicare amount to 77 percent of the federal budget and about 2 percent of GDP, and they are pure additions to national saving. The USA accounts amount to 12 percent of the unified budget surpluses and could be viewed as a tax cut that is highly likely to add to personal saving. Only 11 percent of the surpluses are devoted to additional government spending.

Dedicating the surpluses to Social Security and Medicare serves two purposes. First, it helps to lock in the surpluses so they are not used for tax cuts or wasteful spending. Second, it gives these critical programs a "first call" on the benefits of our fiscal discipline. And these benefits will be large.

This is a fiscally conservative, pro-growth plan that comes close in its macroeconomic impact to a plan of simply paying off debt. Publicly held debt is projected to fall from 44 percent of GDP today to about 7 percent in 2014. That would represent the smallest burden of government debt on the economy since the United States entered World War I in 1917. In addition, some of the surpluses will be used to purchase equities, which will represent an asset of the government. The dramatic decline in national debt would increase private capital investment, keep interest rates low or drive them lower, raise future national income, free up government resources by reducing debt servicing costs and fuel economic growth.

The age wave presents an important challenge to our government, our economy and our nation. But the challenge can be met. We have the creativity and the resources to make the necessary adjustments in our public policy and in our lives. Both workers and retirees can enjoy higher standards of living in the next century than we enjoy today. Achieving this goal will be much easier, however, if we take action today.

Together with our other policies to sustain economic growth, these investments in the future will help keep our economy strong. That in turn will help women start new businesses, expand existing businesses, create new jobs, and extend economic opportunity to more Americans. Your contributions as leaders, innovators, entrepreneurs and managers is a critical part of our success. We salute you. We wish you every success. And we want you to know that we will do our very best to create the conditions you need to succeed.

Thank you very much.

Clinton Presidential Records
Automated Records Management System
[EMAIL] and Tape Restoration Project [Email]

This is not a presidential record. This is used as an administrative marker by the William J. Clinton Presidential Library Staff.

This marker identifies a responsive email, already made available within another collection.

Collection: 2014-0316-F

Bucket: CEA

Creation Date: 1999-05-17

Subject: EU trading constraints

Creator: Joseph E. Aldy CN=Joseph E. Aldy/OU=CEA/O=EOP [CEA]

RECORD TYPE: PRESIDENTIAL (NOTES MAIL)

CREATOR: Audrey Choi (CN=Audrey Choi/OU=CEA/O=EOP [UNKNOWN])

CREATION DATE/TIME:17-MAY-1999 19:38:59.00

SUBJECT: speech

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

TEXT:
janet, here is the speech back to you with a small insert re pay equity from corky. she says we already have all there is re families and work to say, so she didn't add anything to that section. otherwise think it looks more or less good to go. let me know if you think of anything else that we should try to add. thanks and best, audrey =================== ATTACHMENT 1 ===================

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The following is a HEX DUMP:

Remarks of Janet Yellen
Chair of the President's Council of Economic Advisers
to "In Counsel with Women",
Cleveland, Ohio
May 19, 1999

Thank you. It is a pleasure and an honor to be here with so many impressive women executives and future executives. I want to congratulate "In Counsel with Women" for the interesting and important events it organizes to give executive women perspectives on business, the economy and their role as leaders. Women are indeed poised to lead the nation's industries and new ventures into the 21st century. Recognizing today's women leaders and supporting and encouraging tomorrow's will help pave the way for greater participation by women in the business and financial worlds. Particularly at this moment in history, women have an unprecedented opportunity to succeed as economic leaders and full participants in the nation's prosperity.

Our nation's economy is the strongest it has been in a generation. In 1998, growth was impressive, and job creation was vigorous while inflation declined. Real GDP grew 3.9 percent. Nearly 3 million new jobs were created. The unemployment rate dropped to 4.5 percent -- its lowest level since 1969. And the consumer price index rose by only 1.6 percent, its smallest increase since 1964. As you all know, this year we achieved a budget surplus of $69 billion, the largest surplus as a share of GDP since 1957, and surpluses are projected will into the future. The Administration now projects surpluses in the unified Federal budget amounting to about $4.5 trillion over the next 15 years. Importantly, our current economic expansion -- the longest peacetime expansion since we began keeping records in 1854 -- is an extraordinarily healthy one.

Unlike the previous long expansions we have enjoyed in our nation's history, this expansion enjoys a combination of low inflation and low unemployment that is particularly remarkable and shatters long held views and simple textbook theories about the possibility of combining low unemployment and inflation. In fact, the misery index, which is the sum of inflation and unemployment, is lower at this stage of the current expansion than in either of the previous long expansions of the 1960s or the 1980s. This is also an expansion that is investment-driven -- to a far greater extent than in either of the other two long expansions. This investment is contributing to improvements in productivity and future growth, and it is working to hold inflation down.

That healthy economic environment has meant rich and fertile soil upon which women businesses have been able to build and grow. Indeed, the enormous contribution to the growth of the economy by women entrepreneurs, innovators and executives is unmistakable: today women own nearly 40% of all firms in the United States. These eight million women-owned firms contribute $2.3 trillion to the economy and employ 18.5 million people -- that is one in every five workers. And women are starting businesses at twice the rate of all businesses. And the future for women-owned businesses and for the economy is bright. Although we expect some slowing of GDP growth, our forecast through the year 2002 looks for a continuation of the economy expansion with further employment and real wage growth.

In my remarks today, I would like to focus on some of the characteristics of this extraordinary expansion and how recent economic developments have affected in very tangible ways the lives of women and families. I would like to discuss some of the new opportunities and successes women have seen, some of the challenges that remain, and some of the future issues that we need to tackle together.

Opportunities for Women Today

Women today play an unprecedented role in our nation's economy. Women work for pay in greater numbers, in more occupations, and for more years of their lives than ever before. They make up nearly half of the work force. Over 60% of women 16 and older were in the labor force last year. And according to the Labor Department, 99% of women will work for pay at some point in their life. Those statistics may not seem that dramatic to some of the younger women here - so let me just cite one statistic to give people a sense of how dramatically things have changed. In 1969, just 38% of married mothers worked for pay. In 1996, 68% did so.

More important than the number of women working is that the entry of more women into the workforce has also corresponded with women getting more and better education, and moving into higher-skilled jobs and managerial positions. Women earn more college degrees than men and now outnumber men in graduate school. Today, while women still account for 98.5% of the secretaries in the nation, they also make up 44% of the people in executive, administrative and managerial occupations. The representation of women in traditionally male jobs has increased enormously: consider, for example, that between 1970 and 1990 the fraction of women in accounting rose from 25 to 53%, in underwriting, from 0 to 68% and in law, from 5 to 25 percent. An increasing number of women are also going into business for themselves. There have been more new women-owned businesses created in each of the last five years than in any previous year. Last year, 3.5 million women were self-employed.

Women overwhelmingly like their work: according to a recent survey by the Department of Labor, 79% of working women surveyed said they either "love" or "like" their jobs. And more, better work has allowed women more financial independence. Women's home ownership has increased 14% with 1.9 million new women homeowners since the first quarter of 1994.

This Administration is committed to continuing to support the increase of opportunities for women. The President and Vice President have led the way in dramatically increasing our investment in education, placing new emphasis on life-long learning to enable workers to upgrade their skills constantly, and helping our children get access to the technology and tools that they need to prepare themselves for the high paying jobs of the future.

Challenges

Even as we explore these new horizons now available to women executives, women-owned firms, and women workers in all industries, we must also be mindful of some of the challenges that still remain.

One such challenge is the ongoing efforts to achieve pay equity for women. Although the gap between women's and men's wages has narrowed substantially since the signing of the Equal Pay Act in 1963, there still exists a significant wage gap that cannot be explained by differences between male and female workers in labor market experience and in the characteristics of jobs they hold. After hovering at about 60% since the mid 1950s, the ratio of women's to men's median pay began to rise in the late 1970s and reached about 70% by 1990. The gender pay ratio is currently on the rise again, surpassing 75% in 1997. Particularly as women have pursued higher levels of education, have moved into higher-paying occupations, and have accumulated greater labor market experience, the wage gap has narrowed significantly. Women of all ages and education levels have experienced gains in pay relative to their male counterparts, but, interestingly, the gap has narrowed much faster for younger women.

The most recent detailed studies found that as of the late 1980s, about one-third of the gender pay gap was explained by differences in the skills and experience that women bring to the labor market and another 28% was due to differences in industry, occupation and union status among men and women. However, even after accounting for differences in skills and experience that women bring to the labor market, there is still about a 12% "unexplained" difference. Studies that have examined this unexplained difference consistently find evidence of ongoing discrimination in the labor market and support the conclusion that women still face differential treatment on the job. One recent and thorough study finds substantial pay differences between men and women working in the same narrowly defined occupations and establishments. Another finds that pay differences between comparable women and men are simply too large to be explained by productivity differences. And studies on discrimination in hiring offer indirect evidence related to the gender pay gap. One study found that the introduction of "screens" to conceal the identity of candidates from juries in auditions for symphony orchestras markedly increased female musicians' chances of success in such competitions and raised their odds of being hired.

To address the persistent discrimination in pay, the President is urging Congress to pass the Paycheck Fairness Act that has been introduced by Senator Daschle and Congresswoman DeLauro. This legislation would put gender-based wage discrimination on an equal footing with race-based discrimination, by providing full compensatory and punitive damages as remedies for equal pay violations. It would prohibit employers from punishing employees for sharing salary information with their co-workers. It would require the Equal Employment Opportunity Commission to collect pay data from employers identifying the race, sex, and national origin of employees, to aid in enforcing the federal laws against wage discrimination. It would also provide for research on wage discrimination and the establishment of an award to recognize and promote the achievements of employers in eliminating pay disparities between men and women.

In addition, the President's Fiscal Year 2000 budget provides $14 million in funds for the Equal Pay Initiative. $10 million is for the EEOC to increase compliance with equal pay laws, by providing increased training for EEOC employees to identify and respond to wage discrimination claims, increasing technical assistance to businesses on how to meet legal requirements, and launching a public service announcement campaign to inform employees and employers of their rights and responsibilities. Another $4 million is for the Department of Labor to assist federal contractors in recruiting and retaining qualified women in non-traditional occupations.

In addition, as working women and mothers, many of us know that while we may love our jobs, life seems increasingly stressful and complicated when trying to balance a family and work outside the home. Indeed 74% of women who hold professional and managerial jobs said that stress was their number one problem, according to the Labor Department's recent survey.

In fact, the average two-parent family spends 18% more time at work today than it did in 1969. For single parents, the increase is an even more dramatic 28% -- or 297 additional hours at work every year. Virtually all of the increase in families' market hours of work has come from women. There has been a dramatic shift of mothers' time from the household to the labor market and the shift has been largest for college educated women and for women with young children.

For those parents who are able to afford to pay for time saving services and appliances, the increase in hours of work has not necessarily led to less time available to spend with their children. But for lower-income parents, the additional work makes it march harder for them to spend time with their children. And for most families, the additional amount of work outside the home has translated into less flexible schedules to respond to family needs -- contributing to the feeling of stress that so many working women cited.

Among the developments in the labor market to respond to this situation is an increase in flexible work arrangements. In 1997, 28% of full-time wage and salary workers had flexible work schedules -- up sharply from just 15% in 1991. The Federal government has led by example, instituting “flextime” to allow employees some discretion when they work their allotted hours. The President has proposed a flextime initiative that would allow all workers to take “time-and-a-half” overtime compensation in the form of compensatory time off whenever they need it for family or medical leave purposes or vacation -- instead of cash.

The Administration has also played a major role in increasing flexibility among families by helping enact the Family and Medical Leave Act, which enables workers to take up to 12 weeks unpaid leave to care for a new baby or ailing family member without jeopardizing their jobs. Since its inception in 1993, millions of workers have taken advantage of the FMLA to spend necessary time with their families. The Administration has also proposed expanding FMLA to allow workers up to 24 hours per year for parent-teacher conferences or to accompany a child, spouse or elderly parent for routine medical and dental care. Policy makers, employers, and leaders like yourselves must continue to work together to search for creative ways to help people in the workforce also function as effective parents and responsible family members. If families and children are going to withstand the stresses of these trends, employers and public policymakers have a responsibility to do everything they can to help parents balance work and family. Workplaces and work hours must become more flexible and parents need more supports and more choices.

Future Challenges

I would like now to talk for just a few minutes about one of the key challenges we face as a nation: namely, preparing ourselves to meet the needs of an aging population. The ratio of employed workers to retirees has fallen from about 5 to 1 in 1960 to 3-1/2 to 1 today. In only 30 years time, it will be just 2 to 1 and still falling. The economic effects of this age wave can be seen on the Social Security and Medicare programs on which most people's attention is now focused; and the overall government budget, of which those programs are a part. Let me address these in turn.

The most commonly used yardstick to measure the financial soundness of the Social Security system is the 75-year actuarial balance. The Social Security actuaries project that the current balance in the trust fund together with projected revenues over the next 75 years will be insufficient to fund the benefits promised under current law. By 2014, tax receipts are expected to fall short of benefits; by 2022 the shortfall is expected to exceed trust fund interest earnings, so the trust fund will begin to decline; and by 2034, the trust fund is expected to be depleted, after which time contributions would still be sufficient to pay about 70 percent of current law benefits. Of course, future taxes and benefits depend on a variety of economic and demographic factors that cannot be predicted perfectly, so the actual problem may be smaller or larger than we now believe. Nevertheless, the intermediate projections of the actuaries imply that the imbalance during the next 75 years amounts to over 2 percent of taxable payroll, or about 1 percent of GDP.

The Medicare system faces bigger problems, even with the improvement in the financial outlook reported last month. The 75-year actuarial imbalance in Medicare is now about 1-1/2 percent of payroll, somewhat smaller in absolute terms than the Social Security imbalance, but a much larger proportion of the current payroll taxes dedicated to the program. The trust fund is now projected to be insolvent by 2015—a marked improvement from last year's estimate of 2008, but still only a decade and a half away. Moreover, the long-term Medicare spending projections assume that the cost of covered health services grows much more slowly in the future than during the past several decades. This scenario implicitly incorporates either significant structural reform of the program or changes in the basic dynamic of U.S. health care spending.

We can also see the effects of the age wave in the long-term projections of the overall government budget. Social Security and Medicare outlays are expected to rise from less than 7 percent of GDP today to nearly 12 percent of GDP by 2050, and to continue rising beyond that. In addition, federal spending in the Medicaid program is expected to rise from 1-1/4 percent of GDP today to 5 percent of GDP by 2050. People often think of Medicaid as financing health care for low-income *young* people, but it is also the major public support for long-term care for the elderly. Funding of nursing home care, home health care, and related services represents a significant share of current Medicaid spending, and spending in these areas is expected to grow rapidly as the population ages. The impact of demographic changes on retirement programs are especially important for American women, because, on average, women live longer than men, earn less and retire with small pensions and few savings. It is therefore very important that women leaders such as yourselves understand the challenges we face, and engage actively in the discussions to find the right solutions to meet these challenges.

As you know, in his State of the Union the President proposed a plan for how to use the currently projected unified budget surpluses and how to address the financial imbalance of the Social Security system. He proposed devoting 62% of the surpluses over the next 15 years--about $2.8 trillion with a small portion, about 1/4, devoted to equity purchases. These actions would bridge more than half of Social Security's long-term funding gap. Further structural reforms would be needed to achieve full 75 year actuarial balance, which is the most commonly used measure of financial soundness.

The President has also proposed creating a new system of universal savings accounts (USA Accounts) outside of Social Security with 12 percent of the surplus to help working Americans build wealth to meet their retirement needs--a way of strengthening the current pension system and helping Americans save. The motivation for these accounts is straightforward: Social Security was never intended to be more than one leg of a three-legged retirement stool, with the other legs consisting of private pensions and household savings. So, along with strengthening Social Security, we need to increase private pension coverage and household savings. USA Accounts would substantially boost savings, especially for lower and middle income Americans who do less saving than higher income Americans, and receive much smaller incentives for saving through the tax code.

Workers and their spouses in low- and moderate-income households would receive an automatic government contribution of $300 into their USA accounts. In addition, voluntary individual contributions would be matched by further government contributions at a rate that declines with income. The government would provide an equal dollar contribution for most working individuals and provide matches for individual contributions with larger matches going to lower income workers.

In his State of the Union address, the President proposed to devote another 15 percent of the projected budget surpluses to Medicare. He explained that, as with Social Security, resolving this program's long-term funding problem will require a combination of additional resources and structural reform. Unfortunately, the National Bipartisan Commission on the Future of Medicare held its final meeting last month without reaching consensus. The President believes that the Commission did valuable work, but he does not support the proposal offered by Senator Breaux and his colleagues.

Instead, the President has asked his advisors to draft a plan for Medicare reform that meets the following objectives. First, we should modernize Medicare and make it more competitive. By adopting the best management and clinical practices from the private sector, we can keep spending growth in line while maintaining high-quality services. Second, Medicare should continue to provide a guaranteed set of benefits without excessive new costs to beneficiaries. Third, we should use savings from these reforms to help fund a prescription drug benefit. Prescription drugs are a standard element of most health insurance plans for working Americans, but many Medicare beneficiaries have no coverage for their medications, or have inadequate or very expensive coverage. Lastly, we must dedicate part of the projected surpluses as general revenue transfers to Medicare. Structural reforms alone cannot meet the demographic and health challenges of the next century, but reforms combined with additional funding can do so.

Finally, the President would reserve 11 percent of the projected surpluses for military readiness and education and research.

Rather than commenting in detail on the President's Social Security plan, let me talk about the overall macroeconomic impact of this plan. For the nation as a whole, the central problem in coping with an aging population is to provide a high standard of living for both workers and retirees even though a smaller share of the population will be in the workforce. A natural solution is to make workers more productive by increasing investment in both physical and human capital, which will, in turn, raise labor productivity. In doing so, we can boost the size of the total economic pie, which is the prerequisite to meeting the retirement costs of the baby boom generation without unduly burdening future workers. The key to accomplishing this is to increase national saving, a goal to which continued fiscal discipline would contribute. National saving increased from 3.1 percent of gross domestic product in 1992 to 6.7 percent in the first three quarters of 1998, but the improvement is accounted for entirely by the elimination of the federal budget deficit, as private saving actually declined relative to total output with the personal saving rate actually turning negative in the first quarter of this year. The framework offered by the President for the use of emerging budget surpluses would dramatically increase national saving. Evaluated from a macroeconomic perspective--from the perspective of national savings--this plan saves, in essence, between 77 and 89 percent of the projected surpluses, depending on one's evaluation of the saving impact of the USA accounts. The transfers to Social Security and Medicare amount to 77 percent of the federal budget and about 2 percent of GDP, and they are pure additions to national saving. The USA accounts amount to 12 percent of the unified budget surpluses and could be viewed as a tax cut that is highly likely to add to personal saving. Only 11 percent of the surpluses are devoted to additional government spending.

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Thank you very much.

RECORD TYPE: PRESIDENTIAL (NOTES MAIL)

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

CREATION DATE/TIME:18-MAY-1999 09:41:42.00

SUBJECT: Rollout draft comments

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

TEXT:
Hi Janet,

Here's the draft speech I've prepared for you (before seeing Richard's remarks); both Doug and Steve have it, and Doug has promised to get his comments on it to me later this morning.

I've given copies of Richard's comments to Doug and Steve. I feel that this draft speech for you is probably fine in light of what Richard will say, but there is scope for expanding your discussion of the current macroeconomic prospects. And I think Steve's help would be beneficial in that regard, were we to move in that direction.

I'll drop a hardcopy by your office shortly, too.

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

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Statement by Janet Yellen at the EDRC Rollout

May 20, 1999

In opening, let me thank the OECD Secretariat, the Economic Development and Review Committee, and Richard Herd for their commendable efforts this year and last in composing a very helpful and detailed report on the U.S. economy. We welcome the thought-provoking commentary and criticism offered by our colleagues in this regard, and we find it quite valuable to obtain international perspective on the state of our economy and our policies.

The overwhelmingly favorable economic conditions that we are currently enjoying in the U.S. have contributed to making the assessment in this year's review quite positive, and as a result we broadly concur with many of the report's conclusions. Naturally, there are a few differences of opinion, some subtle and some more overt, that we view as part of a normal, healthy discourse in which reasonable parties can disagree. The unique nature of the OECD allows for exactly that, of course; it is an open forum for far-reaching discussion on a broad array of topics, many of which are by nature contentious. We appreciate the opportunity to address these issues within the context of this year's EDRC review.

A centerpiece of the discussion in this year's report is of course the remarkable performance of the U.S. economy last year. During a period of considerable instability in world markets, the U.S. economy continued its torrid pace of the previous several years, growing 3.9 percent despite a disappointing export performance related to events abroad. The expansion, our longest peacetime boom on record, has now reached 98 months, and it shows no signs of cooling off in the immediate future. While world growth slowed to an estimated 2.2 percent in 1998 from 4.2 percent a year earlier, the U.S. economy literally matched its solid 1997 performance due to a number of factors. Robust business investment, solid consumption expenditures, and high levels of residential investment all contributed to solid growth last year and are likely to continue these trends at moderating rates as the economy gradually returns to potential. Not only has growth been exceptional --- helping push the unemployment rate to its lowest level in three decades --- inflation has remained tame, an unprecedented combination this late into an expansion.

The key to these highly favorable macroeconomic developments over this business cycle has been the stance of U.S. fiscal policy and its unwavering commitment to increasing national saving. Supporting our efforts on the fiscal side has been an appropriately accomodative monetary policy --- one that has remained vigilant for inflation while securing liquidity for our markets and ensuring the efficient allocation of capital to our businesses. But the source of that capital creation, the increase in national saving, has been facilitated by the Administration's unwavering dedication to increasing government saving in preparation for the aging of our population.

As you all are aware, last year we recorded our first budget surplus in a generation and the largest as a share of GDP since 1957. And this year looks to be yet another improvement, building upon six strong years of improving fiscal balance under this Administration. The direct result, a stimulated rate of national saving, helps increase the pool of resources available for the very kind of productivity-enhancing investment that has indeed been so strong over this business cycle. As the OECD's Survey points out, maintaining the fiscal caps of the Balanced Budget Amendment --- which have proved so vital in securing our recent movement into the black --- will require some effort. Current levels of defense and nondefense discretionary spending represent their smallest shares of GDP in 35 years, after all. But the consensus exists to stay the course and pay down the debt. By doing so, we will be entering into a virtuous cycle of lower interest payments resulting from the twin effects of a declining principle and lower interest rates, further reducing budget pressures and reinforcing the movement toward consolidation.

As I mentioned before, a major reason why our unflagging adherence to fiscal discipline has been so successful in terms of "crowding in" investment has been the appropriately accomodative yet vigilant stance of monetary policy. As the EDRC Survey notes, inflationary pressures have thus far remained weak despite tight labor market conditions. We fully expect monetary policy to continue to complement growth so long as it remains noninflationary, and there are at present few signs to the contrary. All in all, the state of the macroeconomy and the outlook for fiscal and monetary policies are really quite favorable, and the Survey acknowledges this, while qualifying that assessment with the wisdom that risks do exist.

Moving on to the so-called "structural" aspects of our economy, I would like to comment directly on several issues raised by the report. In our labor markets, we have witnessed dramatic increases in labor force participation rates among the least well-off members of our society, a developments that are linked to the expansion of the Earned Income Tax Credit as well as to Welfare reform. Recently, we have also finally seen "the rising tide lifting all boats," in a way that has not been true for several decades. This expansion has culminated in historically low unemployment rates among minority groups, and even more encouraging are their wage gains. Even unemployment for less-skilled workers has been on the decline. Times have been good, and it shows. But now is clearly the time for action, rather than merely elation.

As the EDRC report agrees, we need to do more to help improve the human capital of the least well-off, and it taps the President's proposals on public charter schools as a key element on this front. The Administration's hiring of 100,000 new public school teachers as part of last year's budget resolution is a good start as well. And the Lifetime Learning Tax Credit, Hope Scholarships, and the expansion of AmeriCorps are all examples of Administration policies that seek to expand educational opportunities by lowering costs.

In the area of financial market regulation, I would like to point out that the President's Working Group on Financial Markets last month released its study of the hedge fund industry, the Long-Term Capital Management episode, and issues concerning the regulation of risk. The report details specific steps regulators should take to discourage excessive leverage. It also suggests requiring fuller disclosure of the degree of exposure to risk, and it calls for expanded risk-assessment authority in some areas. Currently, the heightened degree of self-regulation adopted by markets following the events of last fall are encouraging, but we will continue to keep abreast of developments while pushing for the implementation of the Working Group's recommendations.

###Banking? Telecom? Mergers?

Returning to the theme of my earlier remarks on our strong economy, robust investment, and national saving, let me now move to the heart of this year's EDRC Survey: the special chapter on coping with an aging population. While we are uniquely endowed among industrialized nations with a relatively high fertility rate and a healthy influx of immigrants, both of which are factors that work to lessen the impacts of aging, we still face the same kind of long-term resource shortfalls that is a widespread problem among OECD countries. In the future, we will stand to be facing a shrinking labor force in relation to the dependent population, which will create a resource bottleneck unless we prepare adequately for it.

That is why we feel it is critical to increase national saving in preparation for the impending aging of our population, in order to provide the additional resources that are required beyond what is currently forecast. Living standards are the key variable here, and they rise when productivity rises. The best way to capture productivity gains is by devoting more of our current resources to investment.

The President's Social Security plan does exactly that, by securing surpluses that automatically add to national saving and that will continue to facilitate the high levels of investment we have recently been enjoying. In particular, the President's Universal Savings Accounts, or "USA Accounts," work directly to raise saving by lower-income Americans who have traditionally been unable to save. The EDRC Survey agrees on the desirability of boosting private saving through the use of such tax-favored tools as USA Accounts and the more familiar 401(k)s, although it takes a somewhat different view of the potential scope than we do.

Social Security was never intended to be the single means of retirement support in the U.S. Rather, it is one leg of a three-legged stool; the other two legs are private pensions and individual household savings. By targeting saving by lower-income Americans, the President's USA Accounts work to bolster one of the legs --- individual savings --- bringing it on a more equal footing with the other two. Removing one leg altogether, which is essentially what retooling Social Security in order to rely solely on individual accounts would be, is, in a word, risky.

The Survey also addresses the issue of lessening the work disincentives that are implicit within the pension system --- the earnings test within Social Security that reduces benefits paid to people still in the workforce, thereby distorting the retirement decision. The President has proposed eliminating the earnings test as well as opening a public debate on the issue of choosing how the "normal retirement age" should evolve over time. We will look closely at the needs of workers in physically demanding jobs or with disabilities in relation to these issues, however.

Lastly, on the topic of medical care for the elderly, the President's advisors are at work on a plan for Medicare reform in the wake of the Medicare Commission's conclusion this spring. We plan to increase Medicare's competitiveness by adopting the best practices of the private sector; to continue controlling costs for given guaranteed level of basic benefits; fund through savings from reforms a prescription drug benefit such as those commonly found in private plans; and as envisaged in the President's State of the Union Address, devote part of our budget surpluses to shore up the system so that we might carry out these needed reforms.

The national debate on these issues related to aging has already been initiated, and we are hopeful that in these times of remarkable prosperity at home, we can forge the consensus necessary to secure financing of our programs for the elderly and to achieve long-term structural reform. Again, we are grateful to the OECD and its committees for their valuable contributions to the discussion. Thank you.

RECORD TYPE: PRESIDENTIAL (NOTES MAIL)

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

CREATION DATE/TIME:18-MAY-1999 14:36:34.00

SUBJECT: Outcome of meeting, talking with John

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

TEXT:
Hi Janet,

The meeting today at the State Department cleared up a few things. I talked with John Weeks today around 2pm and covered a few more items. Unfortunately, some things are still somewhat vague, but we do have a clearer picture.

1. Agencies seemed to agree to contribute a collection of issue papers on various topics related to the meeting. Bob Winship will shepherd the papers along. These papers won't be finalized until Monday the 24th, so you'll have these as references, but they're not going to help our preparations much. John knows this, and he's agreed to take the lead on the issues on which we need to get statements for you to present.

2. The lineup of principles was more or less finalized:

Bob Larson, State; Charlene Barshefsky, USTR; Janet Yellen, CEA; David Aaron, Commerce
----

Tuesday 25th

c.4pm BIAC/TUAC consultation Bob Larson, if he can

Wednesday 26th

9:30-12:30 NonMembers Dialogue Yellen, Larson

12:45-2:15 Working Lunch with NonM Yellen, Larson

2:15-3 Sec. General's news conf. (nobody; free)

3:15-6 Macro discussion + Jobs Yellen, Aaron

6-7 Kosovo and the Balkans Yellen, Aaron

?? Dinner, reception, press? Yellen, others(?)

Thursday 27th

breakfast WTO round issues Barshefsky only

morning Trade, etc. Barshefsky, Larson,
Aaron

1:30? OECD press conference ??

2:00 U.S. press conference Aaron, Yellen(?)

later (FRENCH OPEN!!!!)

***So you're almost entirely free on Thursday. The only issue is whether or not there will be press conferences or not; John says that isn't really clear at this point because nobody's planned them. I heard today from Commerce that David Aaron wants to have one (ie, a U.S. press conference), and he wanted you to be there. Barshefsky leaves in the early afternoon on Thursday and won't be there.

The list of statements we're going to prepare is as follows. There are four including the statement as EPC chair. (Previously there were going to be five = four plus the EPC statement; that changed because there is only a small amount of time spent on macro stuff Wednesday afternoon!)

1. NonMembers part one (morning): Something about perceptions of the world economy, benefits of liberalization. John will provide docs on this. I'll synthesize a statement.

2. NonMembers part two (lunch): Stuff on what the OECD can do. Stress corporate governance issues. John will provide docs. I'll synthesize a statement.

3. Macro, EPC Chair: Martine sent me the updated document.

4. Macro, U.S. view: The general macro situation, for which I already have drafted something that John likes; I've passed it along to State and Treasury also, and it's in the works. Also the Jobs Strategy issue. Will draft that paragraph with help from John. Also a brief link to the issues of corporate governance and good governance covered in the Special Dialogue with nonmembers. Will draft, with help from John.

RECORD TYPE: PRESIDENTIAL (NOTES MAIL)

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

CREATION DATE/TIME:18-MAY-1999 16:18:03.00

SUBJECT: revised EDRC speech

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

TEXT:
Hi Janet,

Here's the revised version, incorporating Steve's and Doug's comments on my original draft, of your EDRC rollout speech.

From my perspective, there are issues remaining (and there may be others from your perspective!): Richard's comments are heavier on the short-term macro prospects than your current speech is. Shall we rewrite it to address his remarks more directly in that manner?

Secondly, there is one factual error that Doug found in Richard's comments, but it doesn't appear in the EDRC Survey itself: Richard gives the date of Trust Funds exhaustion as 2032, and it should be 2034. I didn't include a specific reference to this in your comments.

Here are Richard's comments, incidentally. Doug pointed out that the characterization of fiscal policy is also a little poor --- not giving enough credit for creating the highly favorable macro conditions currently --- but I think we cover that well enough in your comments.

And here's an unformatted WordPerfect version (the previous was MSWord 6.0)

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

TEXT:
Unable to convert ARMS_EXT:[ATTACH.D47]ARMS241186055.136 to ASCII,
The following is a HEX DUMP:

October 16, 2014 version

Seen: Ryan, Steve, Doug

Statement by Janet Yellen at the EDRC Rollout

National Press Club's Zenger Room

529 14th St., NW

Thursday, May 20, 1999 at 2:00 PM

In opening, let me thank the OECD Secretariat, the Economic Development and Review Committee, and Richard Herd for their commendable efforts this year and last in composing a helpful and detailed report on the U.S. economy. We welcome the thought-provoking analysis offered by our colleagues, and we find it quite valuable to obtain international perspective on the state of our economy and our policies.

The very favorable economic conditions that we are currently enjoying in the United States have contributed to making the assessment in this year's review quite positive, and as a result we concur with many of the report's conclusions. Naturally, there are a few differences of opinion that we view as part of a normal, healthy discourse in which reasonable parties can disagree. The unique nature of the OECD allows for exactly that, of course; it is an open forum for far-reaching discussion on a broad array of topics, many of which are by nature contentious. We appreciate the opportunity to address these issues within the context of this year's EDRC review.

A centerpiece of the discussion in this report is of course the remarkable recent performance of the U.S. economy. During a period of considerable instability in world markets, the U.S. economy continued its torrid pace of the previous several years, growing 3.9 percent last year despite a disappointing export performance related to events abroad. The expansion, our longest peacetime boom on record, has now reached 98 months, and the chances are good that early next year we will be on the verge of marking the longest economic expansion, whether in peace or war, ever. While world growth slowed to an estimated 2.2 percent in 1998 from 4.2 percent a year earlier, the U.S. economy literally matched its solid 1997 performance due to a number of factors. Robust business investment, solid consumption expenditures, and high levels of residential investment all contributed to solid growth last year and are likely to continue at more moderate but still solid rates. Not only has growth been exceptional --- helping push the unemployment rate to its lowest level in three decades --- inflation has remained tame, an unprecedented combination this late into an expansion.

The key to these highly favorable macroeconomic developments over this business cycle has been the Administration's commitment to balancing the budget, building human capital and making targeted investments, and opening markets abroad. These policies have produced a highly favorable climate for business investment and a strong, investment-driven expansion.

As you all are aware, last year we recorded our first budget surplus in a generation and the largest as a share of GDP since 1957. And this year looks to be yet another improvement, building upon six years of improving fiscal balance under this Administration. The direct result, a stimulated rate of national saving, helps increase the pool of resources available for the very kind of productivity-enhancing investment that has indeed been so strong over this business cycle. Maintaining fiscal discipline will require substantial effort. Current levels of defense and nondefense discretionary spending represent their smallest shares of GDP in 35 years. But the consensus exists to stay the course and pay down the debt. By doing so, we will be continuing the virtuous cycle of lower interest payments resulting from a smaller debt and lower interest rates, further reducing budget pressures and reinforcing the movement toward consolidation.

Another important contribution to our impressive macroeconomic performance has been the appropriately accommodative stance of monetary policy. As the EDRC Survey notes, inflationary pressures have thus far remained weak despite tight labor market conditions. All in all, the state of the macroeconomy and the outlook for fiscal and monetary policies are really quite favorable, and the Survey acknowledges this, while qualifying that assessment with the wisdom that risks do exist.

Moving on to the so-called "structural" aspects of our economy, I would like to comment directly on several issues raised by the report. In our labor markets, we have witnessed dramatic increases in labor force participation rates among the least well-off members of our society, developments that are linked to the expansion of the Earned Income Tax Credit as well as to Welfare reform. Recently, we have also finally seen "the rising tide lifting all boats," in a way that has not been true for several decades. This expansion has culminated in historically low unemployment rates among minority groups, and even more encouraging are their wage gains. Even unemployment for less-skilled workers has been on the decline. Times have been good, and it shows. But now is clearly the time for action, rather than merely elation.

As the EDRC report agrees, we need to do more to help improve the human capital of the least well-off, and it taps the President's proposals on public charter schools as a key element on this front. The Administration's hiring of 100,000 new public school teachers as part of last year's budget resolution is a good start as well. And the Lifetime Learning Tax Credit, Hope Scholarships, and continued support of Pell grants are all examples of Administration policies that seek to expand educational opportunities by lowering costs.

In the area of financial market regulation, I would like to point out that the President's Working Group on Financial Markets last month released its study of hedge funds, leverage, and the lessons of Long-Term Capital Management. The report makes specific recommendations to constrain excessive leverage by improving transparency, enhancing private sector risk management practices, and developing more risk-sensitive approaches to capital adequacy. The heightened degree of self-regulation adopted by markets following the events of last fall are encouraging, but we will continue to keep abreast of developments while pushing for the implementation of the Working Group's recommendations. The Working Group is now moving ahead with a study of the derivatives market, with a particular focus on the relationship between the regulated exchanges and over-the-counter trading.

Returning to the theme of my earlier remarks on our strong economy, robust investment, and national saving, let me now move to the heart of this year's EDRC Survey: the special chapter on coping with an aging population. The impact of aging will be less extreme in the United States than in many other industrial nations, owing to our relatively high fertility rate and a larger influx of immigrants. Nevertheless, we face the same kind of long-term challenge that is widespread among OECD countries. In the future, we expect our labor force to be much smaller in relation to the elderly population than today, which will squeeze standards of living unless we prepare adequately for it.

That is why we feel it is critical to increase national saving in preparation for the impending aging of our population. Maintaining a high level of national income in the future requires us to compensate for a smaller number of workers by having workers who are more highly skilled and by having a greater amount of accumulated savings. If we can boost the size of the total economic pie in the next century, we can meet the retirement costs of the baby boom generation without unduly burdening future workers.

The President's Social Security plan does exactly that, by securing surpluses that automatically add to national saving and that will continue to facilitate the high levels of investment we have recently been enjoying. In addition, the President's Universal Savings Accounts, or "USA Accounts," work directly to raise saving by lower-income Americans who have traditionally saved much less. The EDRC Survey agrees on the desirability of boosting private saving through the use of such tax-favored tools as USA Accounts and the more familiar

401(k)s, although it takes a somewhat different view of the potential scope than we do.

The Survey also addresses the issue of lessening the work disincentives that are implicit within the pension system --- the earnings test within Social Security that reduces benefits paid to people still in the workforce, thereby distorting the retirement decision. The President has proposed eliminating the earnings test, and we will continue to study the question of promoting the right incentives for all Americans.

Lastly, on the topic of medical care for the elderly, the President's advisors are at work on a plan for Medicare reform in the wake of the Medicare Commission's conclusion this spring. We plan to increase Medicare's competitiveness by adopting the best practices of the private sector; to continue controlling costs for given guaranteed level of basic benefits; fund through savings from reforms a prescription drug benefit such as those commonly found in private plans; and as envisaged in the President's State of the Union Address, devote part of our budget surpluses to shore up the system so that we might carry out these needed reforms.

The national debate on these issues related to aging has already been initiated, and we are hopeful that in these times of remarkable prosperity at home, we can forge the consensus necessary to secure financing of our programs for the elderly and to achieve long-term structural reform. Again, we are grateful to the OECD and its committees for their valuable contributions to the discussion. Thank you.

OECD presentation at National Press Club 20 May

Strong economic growth has continued,
As you are well aware, last year was the seventh consecutive year of expanding GDP in the US, with real GDP rising by 3.9 per cent in 1998. Private consumption and investment have been the principal factors behind this exceptional performance. Households have stopped saving, boosting consumption. At the same time, spurred by the falling computer prices, companies continued to increase equipment outlays. Such a rapid growth of private domestic demand has offset the slackening in exports. Nevertheless, inflation has declined once again, with consumer price increases dropping by over a percentage point in 1998 to an annual rate of less than 1 per cent. However, with imports surging and exports falling, the external current account deficit rose to 2¾ per cent of GDP and for the first time in half a century, the personal sector has moved into financial deficit. The sustained expansion has reduced the unemployment rate to 4.3 per cent of the labour force, a level not seen since the second half of the 1960s. No doubt you are all interested in whether this performance can be continued.

Such a good performance has been driven by the following factors

- Strong productivity growth
- Falling import prices
- A reduction in inflation expectations, as evidenced by the fall in bond yields during 1998
- A marked increase in household wealth, stemming from the increase in stock market prices.

Taking these factors in turn
Productivity has been boosted by a rapid increase in capital formation that has pushed investment to the relatively high level of almost 12 percent of the net real capital stock of the business sector, 2½ percentage points above its peak in any previous cycle since 1945. To be sure, a higher amount of replacement capital is needed than in the past. The implicit depreciation rate has been rising because of greater expenditures on shorter-lived equipment such as computers and because of relatively weaker growth in non-residential construction. Nonetheless, the growth rate of the real net capital stock has picked up in the last few years, reaching rates not seen since 1979.

Such strength has led to an increase in the sustainable growth rate of the US economy bringing it to almost 3 per cent. But it is important to note that the associated increase in labor productivity has mainly been associated with the boost in the amount of equipment, especially computers and related information technology, used by each worker. There is little evidence that total factor productivity growth has accelerated. The significant gains in 1996 and 1997 can be explained by the cyclical upswing in the economy, leaving only a small part of the 1998 increase as evidence that there has been a trend increase.

The growth in labour productivity has meant that unit costs have not accelerated as quickly as wage hikes would indicate. In the domestic non-financial corporate sector, unit labour costs have been generally well contained, as nominal compensation has barely risen faster than above-average productivity increases. However, competitive pressures have been extreme and corporations have had to contend with falling prices in 1998 that have led to a decline in corporate profit margins.

The sharp fall in *import prices* has been another factor boosting demand and restraining inflation. The import price deflator plummeted 5.2 per cent in 1998 after declining 3.7 per cent the year before. The cost of oil plunged by one-third in 1998, directly shaving ¼ percentage point off the CPI. Commodities were particularly hard hit by the slowdown in world demand; the PPI for crude materials, excluding food and energy, dived 9¼ per cent in 1998. Other import prices also fell, as the dollar appreciated, bringing the largest improvement in the terms of trade since 1983.

Finally, *consumers* have lowered their saving rates because their balance sheets are in good shape. Although debt has risen rapidly, financial assets have grown faster, while holdings of tangible assets have accelerated too. The net worth of households has increased over 10 per cent, at an annual rate, in the last three years. With stock prices having grown 23 per cent in the same period, as measured by the Wilshire 5000, the capital gain on personal sector financial assets, net of debt, has averaged 16½ per cent at an annual rate. As a result, even though this sector has pulled money out of financial markets in the last three years, net financial worth has continued to climb. Households now hold almost one-third of their financial assets either directly or indirectly in corporate equities -- up from one-quarter three years earlier.

Not all of these factors can be expected to persist, bringing slower growth

- Plant and equipment investment seems likely to slacken as profits weaken
- Further surges in share prices are becoming more unlikely, so slowing consumer spending
- Demand is weakening but inflation should pick up as oil prices have already increased from their earlier lows
- And the exchange rate is little changed from its 1998 average, lessening the prospective fall in import prices
- These factors suggest that from the second half of this year, growth should slow to a 2 per cent rate and this growth rate should hold into 2000.
- Despite this slackening of demand, the current account deficit is expected to widen further reaching 3½ per cent of GDP next year.
- Some increase in unemployment also seems likely, though it should still remain well under the OECD estimate of the equilibrium level leaving the economy operating above its potential next year. As a result, inflation may pickup slightly.

Economic polices have played a key part in sustaining the current expansion

Monetary policy, in particular, has helped keep up the momentum of the upswing. Interest rate cuts last fall averted a possible slowdown, helping asset prices recover. For the future, if our projections are realised, then there is no need for an immediate increase in interest rates. They suggest that the economy will indeed slacken. However, if the recent strength of the economy were to persist and if there is evidence that the current weak inflation pressures might not be sustained, then a case could arise for the tightening of monetary policy.

Fiscal policy has exerted a stabilising influence on the economy in the past year. The general government account registered a surplus of 1.7 per cent of GDP, only its second surplus in the past thirty years, resulting in net public debt falling to 42 per cent of GDP from a peak of 47 per cent in 1995. Policy decisions that checked the growth of spending played a role in this development, together with the higher-than-expected increase in tax revenues.

The five-year expenditure-control programme agreed by Congress and the Administration in 1997 has now reached a crucial stage that will help determine the medium-term outlook for the budget position. While overall spending was allowed to rise somewhat at the beginning of the plan, in the next three fiscal years nominal outlays will have to fall in order to comply with legislated spending caps.

But spending cuts are difficult when the budgets are in surplus, requiring great determination from the authorities to realise ambitious plans. If however, the authorities are able to stick to the President's Budget proposal, that limits the increase in discretionary spending to the inflation rate, then net general government debt should fall to around 10 per cent of GDP by 2009, down from its current level of 42 per cent. Such a boost to national savings is key part of the effort that is needed to meet the consequences of ageing in the next 40 years.

Coping with the consequences of ageing is manageable.

Of course, the next forty years will see a major change in the structure of the US population: the number of elderly is expected to increase markedly while the growth of the working population should slacken. By 2035 (when all of the baby boom generation will have retired), there would be almost twice as many people over the age of 65 for each person of working age as at the moment. Such demographic changes, however, are predicted to be much less severe than in many other OECD countries, as the US population continues to benefit from relatively high fertility and immigration.

There is also likely to be a slackening in economic expansion due mainly to a slower growth of the labour force. In such a scenario, with the elderly consuming more than the working population, personal savings might keep declining in the longer term which, despite capital inflows, could result in lower growth of the capital stock and productivity, and in turn of, of living standards.

Not only are the demographic changes smaller than in the rest of the OECD area but the private sector has already established a well-developed pension saving industry, so lessening the strain on public finances, compared to other countries. Most notable has been the successful experience with 401(k) defined-contribution plans, introduced in 1978 to induce people to accumulate assets in preparation for their retirement. At the end of 1997, more than $1.8 trillion was invested in 401(k) and similar plans, almost three times the size of the Social Security Trust Fund portfolio. Two positive aspects of this "success story" are worth noting: 401(k) plans have improved the ease with which retirement saving can be preserved when changing jobs; and they have also given individuals more responsibility as to their own investment decisions for retirement purposes.

Nonetheless, there will be strains on public finances. In the next four decades, according to official projections, social security pension payments and health care costs for the elderly seem likely to expand by 2¼ and 4 per cent of GDP, respectively. As a result, by 2032, actuarial estimates suggest that there will be no assets left in the Social Security Trust Fund.

However, while Social Security and Medicare may be running large deficits, the remainder of the Federal budget should be generating significant surpluses. Over the very long-run, with no policy changes Social Security and Medicare are running deficits equivalent to 0.8 and 1.3 per cent of GDP. Increases in Medicaid for the elderly will also add 0.3 per cent of GDP to the deficit – a total deficit of 2.4 per cent of GDP linked to ageing. On the other hand, the remainder of the budget has room for tax cuts amounting to 1.6 per cent of GDP, illustrating the importance of viewing the government sector as whole, rather than just focusing on the ageing components of the budget.

While the likely overall surplus in the remainder of the budget may be sufficient to ensure the future of Social Security, it cannot finance both Social Security and Medicare. Structural changes to both of these programmes are required, rather than just book-keeping adjustments. The scale of the changes that need to be made to public finances are, however, relatively small – less than 1 per cent of GDP compared to the 4.5 per cent increase in the cyclically adjusted balance in the past six years.

The Presidents proposal for Saving Social Security involves creating a reserve to prolong the life of Social Security. This planned reserve should ensure that the unified budget (including Social Security) remains in surplus and adds to national saving. This is a positive development because international experience shows how difficult it is to sustain and increase a budget surplus.

On the other hand, as yet, no proposals have been made as to how to safeguard Social Security over the very long term. This would likely require consideration of some the following options some combination of acceleration in the planned increases in the retirement age, some linking of retirement age to life expectancy and perhaps lower cost of living adjustments. In addition, part of the plan rests on obtaining high and far from certain returns from investing part of the Social Security Fund in equities. Moreover, this part of the Presidents plan may lead to the government holding 4 per cent of each and every US quoted company, so raising issues of corporate governance.

Another element of the Presidents plan, the creation of Universal Saving Accounts, would be a step to boosting the saving of low-income families. It may be appropriate to build on the proposed *voluntary* individual savings accounts in order to safeguard the well being of the elderly beyond 2055 when, even with the proposed transfers, the Trust Fund will be exhausted. To this end, the accounts could be redesigned as *mandatory*.

The biggest gap in current policy relates to Medicare. This survey advocates progressively moving *Medicare* towards a managed care framework. It advocates using the Federal employees health care plan as a basis for Medicare reform. In this regard, the suggestions in the Survey is similar to some of the proposals that were made by the Chairman of the Medicare Commission. The survey also suggests that reform is necessary in the area of integrating the long-term care services provided by state and federal governments and supporting more home and community based care systems for the elderly but with strict control over home-care assistance.

Other structural reforms would be beneficial
Increasing participation in the labour force is another way to provide increased resources to meet the costs of ageing. Already, far-reaching reform has substantially reduced welfare rolls and a strong economy has boosted the employment of disadvantaged groups. A lasting improvement in the position of the least advantaged will require an enhancement of their educational opportunities. The survey points out that one way of achieving this is to lessen the extreme variations in spending amongst different school districts.

- Elsewhere, legislation underpinning financial regulation should be reformed

- Glass-Steagall barriers between banks and other financial institutions should be removed.
- Artificial barriers between over-the-counter markets in derivatives and futures exchanges should be removed by relaxing the prohibitions of some activities of regulated exchanges.

Additional progress in international trade liberalisation is essential. It will be important to avoid recourse to protectionist measures as the current account deficit widens.

RECORD TYPE: PRESIDENTIAL (NOTES MAIL)

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

CREATION DATE/TIME:19-MAY-1999 15:50:32.00

SUBJECT: Medicare Principle's Meeting

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

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

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

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

TEXT:
Janet, a Medicare Principle's meeting is scheduled for 1pm tomorrow (Thursday). Despite a 3 hour deputies meeting today, the agenda for tomorrow's meeting is not nailed down. However, the potential topics include:

1. Estimates of alternative prescription drug benefit packages
2. Draft of three different overall Medicare reform packages:
    A. A plan the House Democratic base would support
        No competition, no cost-sharing, use as much of the surplus as possible to pay for Medicare
    B. A plan the Senate Finance committee would support
    C. A White House option
        Chris Jennings will be drafting this very sketchy plan tonight, and it is uncertain whether he will ask for our input on this draft before the Principle's meeting tomorrow. His draft plan should in no way be interpreted as a plan that has the support of the deputies -- we have not discussed the specific decisions he will put on the table. His goal is to give the Principles a broad characterization of a White House plan in comparison with House Dems and Senate Finance.
3. Administrative "fixes" to address the BBA 1997.

Chris may provide draft briefing slides to the deputies tomorrow prior to the meeting. If so, I will go over them with you just before 1pm if you are available.

There is also some additional information that has become available since we last talked that you should be aware of.

With regards to prescription drugs, I now think that the $0 deductible might not be such a bad idea. The drug option will be voluntary, so to ensure that there is broad participation and avoid adverse selection, we have to make the package appealing to most all beneficiaries. A $0 deductible is likely to attract this broad appeal. In addition, it appears that there is fairly broad support among the Principles to have the $0 deductible, so we might be fighting a battle we can't win. However, I still think we should push on catastrophic coverage -- this option is still on the table, and it makes good policy sense.

The other drug issue that I am concerned about is the phase-in. There appears to be support for phasing in the benefit to keep 10 year costs down. Obviously this creates problems beyond year 10. Most people do not seem to want to address this concern, but I think we should keep this in mind.

I will contact you before tomorrow's meeting if I have additional information for you.

See you tomorrow.

RECORD TYPE: PRESIDENTIAL (NOTES MAIL)

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

CREATION DATE/TIME:19-MAY-1999 17:55:50.00

SUBJECT: Several OECD notes

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

TEXT:
Hi Janet,

Several things (I'll try to mention them tomorrow if I see you):

EDRC Rollout:

1. Is there anything else we can do for you in preparation? Would you like briefing points on any of the themes in your speech or Richard's?

2. Audrey said she had some comments on your speech. I told her Thursday'd be the day for that, since you may well have changed it yourself.

Ministerial:

1. John Weeks says there's a *chance* Secretary Richardson might want to attend the Non-Members discussion Wednesday morning. Should that happen, you and he would sit at the table.

2. John also says Alan Larson at the State Department wants to speak on the Kosovo issue during the evening (6 or 6:15 to 7pm) leg of the Ministerial on Wednesday. Would you have any problem with "abdicating" for that stretch? I told John you probably wouldn't, but that I'd check.

3. John gave us the heads-up on the issue of a "U.S." press conference. Currently, the Ambassador et al. need to decide what they want to do about it. David Aaron (DoC) had indicated he wanted one on Thursday afternoon. John feels that it might be unfair to ask you to do that *one* thing on Thursday. There's the additional complication that if Barshefsky is involved, she'll probably want to talk about her own stuff. She'll be gone early Thursday afternoon and probably couldn't do a press conference then. There are numerous possibilities, including the chance of having one Thursday night around 7ish. Nothing's been decided.

(4. Preparations are proceeding with the interventions. John understands our intense desire to have things by Friday. I'm confident we'll have acceptable stuff prepared soon. What I'm less sure about is any kind of background information. Most of this being handled by the Mission means that I'm out of the loop on it, and the OECD documentation, what little there is available yet, is unhelpful.)

Best,

-Ryan

RECORD TYPE: PRESIDENTIAL (NOTES MAIL)

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

CREATION DATE/TIME:20-MAY-1999 10:07:05.00

SUBJECT: Revised Rollout speech

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

TEXT:
Hi Janet,

Here's the revised rollout speech in electronic format. I'll have a paper
copy to you shortly.

Best,

-Ryan

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

TEXT:
Unable to convert ARMS_EXT:[ATTACH.D9]ARMS28325425I.136 to ASCII,
The following is a HEX DUMP:

October 16, 2014 version

Seen: Ryan, Steve, Doug

Statement by Janet Yellen at the EDRC Rollout

National Press Club's Zenger Room

529 14th St., NW

Thursday, May 20, 1999 at 2:00 PM

In opening, let me thank the OECD Secretariat, the Economic Development and Review Committee, and Richard Herd for their commendable efforts this year and last in composing a helpful and detailed report on the U.S. economy. We welcome the thought-provoking analysis offered by our colleagues, and we find it quite valuable to obtain international perspective on the state of our economy and our policies.

The very favorable economic conditions that we are currently enjoying in the United States have contributed to making the assessment in this year's review quite positive, and we concur with many of the report's conclusions. Naturally, there are a few differences of opinion that we view as part of a normal, healthy discourse in which reasonable parties can disagree. The unique nature of the OECD allows for exactly that, of course; it is an open forum for far-reaching discussion on a broad array of topics, many of which are by nature contentious. We appreciate the opportunity to address these issues within the context of this year's EDRC review.

A centerpiece of the discussion in this report is of course the remarkable recent performance of the U.S. economy. During a period of considerable instability in world markets, the U.S. economy continued its robust pace of the previous several years, growing 3.9 percent last year despite disappointing export performance related to events abroad. The expansion, our longest peacetime boom on record, has now reached 98 months, and the chances are good that early next year we will be on the verge of marking the longest economic expansion, whether in peace or war, ever. While world growth slowed to an estimated 2.2 percent in 1998 from 4.2 percent a year earlier, the U.S. economy literally matched its solid 1997 performance due to a number of factors. Robust business investment, solid consumption expenditures, and high levels of residential investment all contributed to solid growth last year and are likely to continue at more moderate but still solid rates. Not only has growth been exceptional --- helping push the unemployment rate to its lowest level in three decades --- inflation has remained tame, an unprecedented combination this late into an expansion.

The key to these highly favorable macroeconomic developments during this expansion has been the Administration's commitment to balancing the budget, building human capital and making targeted investments, and opening markets abroad. These policies have produced a highly favorable climate for business investment and a strong, investment-driven expansion.

As you all are aware, last year we recorded our first budget surplus in a generation and the largest as a share of GDP since 1957. And this year looks to be yet another improvement, building upon six years of improving fiscal balance under this Administration. The direct result, a more-than-doubling of the rate of national saving, helps increase the pool of resources available for the very kind of productivity-enhancing investment that has indeed been so strong over this business cycle. Maintaining fiscal discipline will require substantial effort. Current levels of defense and nondefense discretionary spending represent their smallest shares of GDP in 35 years. But by paying down the debt, we will be reinforcing a virtuous cycle in which lower interest payments resulting from a smaller debt lower interest rates, further reducing budget pressures and reinforcing the movement toward consolidation.

Another important contribution to our impressive macroeconomic performance has been the appropriately accommodative stance of monetary policy. As the EDRC Survey notes, inflationary pressures have thus far remained weak despite tight labor market conditions. All in all, the state of the macroeconomy and the outlook for fiscal and monetary policies are really quite favorable, and the Survey acknowledges this, while qualifying that assessment with the wisdom that risks do exist.

Moving on to the so-called "structural" aspects of our economy, I would like to comment directly on several issues raised by the report. In our labor markets, we have witnessed dramatic increases in labor force participation rates among the least well-off members of our society, developments that are linked to the expansion of the Earned Income Tax Credit as well as to Welfare reform. Recently, we have also finally seen "the rising tide lifting all boats," in a way that has not been true for several decades. This expansion has culminated in historically low unemployment rates among minority groups, and even more encouraging are their wage gains.

Even unemployment for less-skilled workers has been on the decline. Times have been good, and it shows. But now is clearly the time for action, rather than merely elation.

As the EDRC report agrees, we need to do more to help improve the human capital of the least well-off, and it taps the President's proposals on public charter schools as a key element on this front. The Administration's hiring of 100,000 new public school teachers as part of last year's budget resolution is a good start as well. And the Lifetime Learning Tax Credit, Hope Scholarships, and continued support of Pell grants are all examples of Administration policies that seek to expand educational opportunities by lowering costs.

In the area of financial market regulation, I would like to point out that the President's Working Group on Financial Markets last month released its study of hedge funds, leverage, and the lessons of Long-Term Capital Management. The report makes specific recommendations to constrain excessive leverage by improving transparency, enhancing private sector risk management practices, and developing more risk-sensitive approaches to capital adequacy. The heightened degree of self-regulation adopted by markets following the events of last fall are encouraging, but we will continue to keep abreast of developments while pushing for the implementation of the Working Group's recommendations. The Working Group is now moving ahead with a study of the derivatives market, with a particular focus on the relationship between the regulated exchanges and over-the-counter trading.

Returning to the theme of my earlier remarks on our strong economy, robust investment, and national saving, let me now move to the heart of this year's EDRC Survey: the special chapter on coping with an aging population. The impact of aging will be less extreme in the United States than in many other industrial nations, owing to our relatively high fertility rate and a larger influx of immigrants. Nevertheless, we face the same kind of long-term challenge that is widespread among OECD countries. In the future, we expect our labor force to be much smaller in relation to the elderly population than today, which will squeeze standards of living unless we prepare adequately for it.

That is why we feel it is critical to increase national saving in preparation for the impending aging of our population. Maintaining a high level of national income in the future requires us to compensate for a smaller number of workers by having workers who are more highly skilled and by having a greater amount of accumulated savings. If we can boost the size of the total economic pie in the next century, we can meet the retirement costs of the baby boom generation without unduly burdening future workers.

The President's Social Security plan does exactly that, by securing surpluses that automatically add to national saving and that will continue to facilitate the high levels of investment we have recently been enjoying. In addition, the President's Universal Savings Accounts, or "USA Accounts," work directly to raise saving by lower-income Americans who have traditionally saved much less. The EDRC Survey agrees on the desirability of boosting private saving through the use of such tax-favored tools as USA Accounts and the more familiar 401(k)s, although it takes a somewhat different view of the potential scope than we do.

The Survey also addresses the issue of lessening the work disincentives that are implicit within the pension system --- the earnings test within Social Security that reduces benefits paid to people still in the workforce, thereby distorting the retirement decision. The President has proposed eliminating the earnings test, and we will continue to study the question of promoting the right incentives for all Americans.

Lastly, on the topic of medical care for the elderly, the President's advisors are at work on a plan for Medicare reform in the wake of the Medicare Commission's conclusion this spring. We plan to increase Medicare's competitiveness by adopting the best practices of the private sector; to continue controlling costs for given guaranteed level of basic benefits; fund through savings from reforms a prescription drug benefit such as those commonly found in private plans; and as envisaged in the President's State of the Union Address, devote part of our budget surpluses to shore up the system so that we might carry out these needed reforms.

The national debate on these issues related to aging has already been initiated, and we are hopeful that in these times of remarkable prosperity at home, we can forge the consensus necessary to secure financing of our programs for the elderly and to achieve long-term structural reform. Again, we are grateful to the OECD and its committees for their valuable contributions to the discussion. Thank you.

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[EMAIL] and Tape Restoration Project [Email]

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This marker identifies a responsive email, already made available within another collection.

Collection: 2014-0316-F

Bucket: CEA

Creation Date: 1999-05-20

Subject: EU trading constraint proposal

Creator: Joseph E. Aldy CN=Joseph E. Aldy/OU=CEA/O=EOP [CEA]

RECORD TYPE: PRESIDENTIAL (NOTES MAIL)

CREATOR: Audrey Choi (CN=Audrey Choi/OU=CEA/O=EOP [UNKNOWN])

CREATION DATE/TIME:21-MAY-1999 18:14:46.00

SUBJECT: rough draft remarks

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

TEXT:
here is a very rough draft to work from.... essentially an intro and then a quick outline of 1.state of economy today 2. forecast and 3. challenges of soc sec and medicare... i'll bring you a packet on the group that should also give you a better feel for the group... i'm happy to do further polishing if you need. thanks again for doing this. cabinet affairs is tremendously appreciative ... and they said that they will do everything they can to keep the speaking order the same ... alvarez to podesta to lewis to you to sperling.

(fyi, given his focus on the New Markets initiative, i imagine sperling will talk primarily about the importance of these 'untapped markets' and the president's initiative for them),. ================== ATTACHMENT 1 ==================
ATT CREATION TIME/DATE: 0 00:00:00.00

TEXT:
Unable to convert ARMS_EXT:[ATTACH.D44]ARMS27231045H.136 to ASCII,
The following is a HEX DUMP:

Remarks by Janet Yellen
Chair, Council of Economic Advisers
to National Small Business Week
White House Briefing

Monday, May 24, 1999
Room 450, Old Executive Office Building

Good morning. It is a pleasure to have this opportunity to meet with all of you today. I would like to congratulate you again for your outstanding achievements and for the contributions you make to our nation's economy. The 24 million small businesses in the United States are a critical engine of economic growth and job creation in our country. The kind of special leadership you present -- through your innovation, your drive, your determination and your example -- is truly a great contribution to us all.

I would like to take a few minutes this morning to talk about the incredible economic success our country is currently enjoying; the opportunities it presents for you; and the responsibilities we have to help keep the foundations sound.

I. State of the Economy:

In our view, our Nation's economy is the strongest it has been in a generation. In 1998, growth was impressive, and job creation was vigorous while inflation declined. Real GDP grew 3.9 percent. Nonagricultural jobs increased by about 2.9 million during the year, and the average unemployment rate for the year dropped to 4.5 percent, its lowest level since 1969. The consumer price index rose by only 1.6 percent, its smallest increase since 1964, and other measures of inflation were even more muted.

As you all know, this year the Federal budget moved strongly into surplus. In the 1992 fiscal year the budget deficit was $290 billion and expected to rise further with no change in policy. But beginning in 1993, the deficit began to decline steadily as a consequence of a shift to fiscal discipline. In 1998, the budget *surplus* was $69 billion, the largest surplus as a share of GDP since 1957, and surpluses are projected well into the future: the Administration now projects surpluses in the unified Federal budget amounting to about $4.5 trillion over the next 15 years. I will return to the budget and the use of those surpluses to address demographic challenges in a few minutes.

We are curretnly enjoying the longest peace time expansion since we started keeping records in 1854. Judged in terms of overall economic performance this expansion has been not only long but excellent--especially with respect to inflation and unemployment. By this time in the expansion of the 1960s, for example, inflation was rising sharply and was much higher than now, at about 5%. In the 80s expansion, inflation was also rising at this stage and had reached 5%. By contrast, inflation now is much lower and has been coming down. Since the need to combat high or rising inflation is what typically brings an expansion to an end, this greatly raises the prospects for a continuing expansion. The combination of low inflation and low unemployment is particularly remarkable and shatters long held views and simple textbook theories about the possibility of combining low unemployment and inflation. In fact, the misery index, which is the sum of inflation and unemployment, is lower at this stage of the current expansion than in either the expansion of the 60s or the 80s.

This is also an expansion which is investment-driven--to a far greater extent than in either of the other two long expansions. This investment is contributing to improvements in productivity and future growth and it is working to hold inflation down. Of course, it didn't occur by accident --it's the consequence of fiscal discipline and reflects a conscious choice to shift the policy mix toward a tighter fiscal policy coupled with a lower interest rate, accommodative monetary policy to stimulate investment and spur economic growth.

The continuing strong economic performance in 1998 is all the more remarkable because it took place at a time of considerable stress to the world economy. A third of all world economies were in outright recession or experiencing markedly slower growth by late 1998. After growing at 4.2% in 1997, world economic growth slowed to an estimated 2.2 percent in 1998, a pace comparable to the growth rates registered during the pronounced world slowdowns of 1974-75, 1980-83, and 1990-91. Our trade deficit rose and exports declined, particularly to countries in East Asia, producing a drag on economic growth and inflicting hardship on some sectors of the U.S. economy. The international environment remains exceptionally risky, with the prospects for growth in Europe, for a recovery Japan and for a pickup in activity in crisis afflicted countries highly uncertain. Even so, we believe that the U.S. economy has entered 1999 on course to continue growing and the chances are good that next year at this time we will be on the verge of marking the longest economic expansion—whether in peace or war—ever.

II. Opportunities ahead

The strength of the economy means a continuation of great opportunities for entrepreneurs such as yourself. Looking ahead, we product that through the year 2007, we will see an expansion with further employment and real wage growth, -- although GDP is expected to grow at a slower, 2.0% rate on average over the next 3 years in comparison with the roughly 3.9% average pace of the last three years. We project that unemployment will edge up slightly. We also anticipate that the CPI will rise at a 2.3% annual rate next year and thereafter--close to the increase in the core CPI over the past year. This reflects our expectation that some of the special factors, including plunging oil and import prices, which depressed inflation this year will contribute less in containing inflation next year and thereafter. After 2001, we project that real GDP growth will resume growth at our estimate of trend--2.4%, and the unemployment rate is projected to stabilize at 5.3%, of our working estimate of NAIRU, the unemployment rate consistent with stable inflation over the longer term.

ETC

Challenges Ahead.

As we look ahead at a promising landscape of continued growth, we must also be mindful of our responsibilities so that the economy countinues to have a sound foundation upon which to continue to grow and prosper. We must also look at some of the particular challenges we face as we move into the 21st century and prepare our nation to meet the needs of an aging population. The ratio of employed workers to retirees has fallen from about 5 to 1 in 1960 to 3-1/2 to 1 today. In only 30 years time, it will be just 2 to 1 and still falling. The same demographic effects that have impaired the finances of Social Security also impact Medicare and Medicaid.

As you know, in his State of the Union the President proposed a plan for how to use the currently projected unified budget surpluses and how to address the financial imbalance of the Social Security system. He proposed devoting 62% of the surpluses over the next 15 years--about $2.8 trillion with a small portion, about 1/4, devoted to equity purchases--to extend the solvency of the Social security system until 2055. Further reforms would be needed to achieve full 75 year actuarial balance, which is the most commonly used measure of financial soundness. Assuming that a solution for social security can be achieved, the President has also proposed using 15% of the projected surpluses for Medicare, ensuring the Medicare Trust Fund is secure for another 20 years. The President has emphasized the need to utilize the extra funding as part of a broad effort to strengthen the Medicare program. He also proposed creating a new system of universal savings accounts (USA Accounts) outside of Social Security with 12 percent of the surplus to help working Americans build wealth to meet their retirement needs--a way of strengthening the current pension system and helping Americans save. The government would provide an equal dollar contribution for most working individuals and provide matches for individual contributions with larger matches going to lower income workers. Finally, the President would reserve 11 percent of the projected surpluses for military readiness and education and research.

Rather than commenting in detail on the President's Social Security plan, let me talk about the overall macroeconomic impact of this plan. For the nation as a whole, the central problem in coping with an aging population is to provide a high standard of living for both workers and retirees even though a smaller share of the population will be in the workforce. A natural solution is to make workers more productive by increasing investment in both physical and human capital, which will, in turn, raise labor productivity. In doing so, we can boost the size of the total economic pie, which is the prerequisite to meeting the retirement costs of the baby boom generation without unduly burdening future workers. The key to accomplishing this is to increase national saving, a goal to which continued fiscal discipline would contribute.

National saving increased from 3.1 percent of gross domestic product in 1992 to 6.7 percent in the first three quarters of 1998, but the improvement is accounted for entirely by the elimination of the federal budget deficit, as private saving actually declined relative to total output with the personal saving rate hitting zero in the last quarter of the year. The framework offered by the President for the use of emerging budget surpluses would dramatically increase national saving. Evaluated from a macroeconomic perspective--from the perspective of national savings--this plan saves, in essence, between 77 and 89 percent of the projected surpluses, depending on one's evaluation of the saving impact of the USA accounts. The transfers to Social Security and Medicare amount to 77 percent of the federal budget and about 2 percent of GDP, and they are pure additions to national saving. The USA accounts amount to 12 percent of the unified budget surpluses and could be viewed as a tax cut that is highly likely to add to personal saving. Only 11 percent of the surpluses are devoted to additional government spending.

Dedicating the surpluses to Social Security and Medicare serves two purposes. First, it helps to lock in the surpluses so they are not used for tax cuts or wasteful spending. Second, it gives these critical programs a "first call" on the benefits of our fiscal discipline. And these benefits will be large.

This is a fiscally conservative, pro-growth plan that comes close in its macroeconomic impact to a plan of simply paying off debt. Publicly held debt is projected to fall from 44 percent of GDP today to about 7 percent in 2014. That would represent the smallest burden of government debt on the economy since the United States entered World War I in 1917. In addition, some of the surpluses will be used to purchase equities, which will represent an asset of the government. The dramatic decline in national debt would increase private capital investment, keep interest rates low or drive them lower, raise future national income, free up government resources by reducing debt servicing costs and fuel economic growth. We have estimated, for example, that in comparison with the exploding ratios of debt to GDP forecast back in 1993, the President's plan, which substitutes productive capital assets in private portfolios for unproductive debt would lower interest rates by about 2.5%. Even compared to a more optimistic baseline in which we assume that the political process would have achieved budget savings sufficient to hold the debt to GDP ratio at 50%, the President's plan lowers interest rates by 1-1.25% by 2014 and would raise GDP by 3.5-4.5%--a substantial increase in the size of the pie.

Conclusion

Recap importance of investment and entrepreneurship. Congratulate small business and their leadership role in creating jobs, providing insight and innovation and crucial strength and momentum in our economic growth

etc

RECORD TYPE: PRESIDENTIAL (NOTES MAIL)

CREATOR: Bob J. Nash (CN=Bob J. Nash/OU=WHO/O=EOP [WHO])

CREATION DATE/TIME:21-MAY-1999 18:58:14.00

SUBJECT: CEA memo

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

TEXT:
Janet,
I wanted to let you know that Gene Sperling sent the CEA memo in to POTUS and POTUS sent it back without making a decision. It is now in Gene's hands.

Bob

RECORD TYPE: PRESIDENTIAL (NOTES MAIL)

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

CREATION DATE/TIME:24-MAY-1999 17:11:56.00

SUBJECT: !! NEC point on Ministerial Macro intervention

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

TEXT:
Hi Janet,

Audrey suggested that NEC look at the macro intervention before it go out; Steve Braun suggested that I talk to Rob Wescott.

Rob said he felt the intervention didn't say strongly enough how Europe needed to pursue a strong *combination* of macroeconomic and structural policies. A relatively frank statement of this is in the recent G-8 communique. There wasn't anything else that Rob mentioned.

I talked to Bob Harlow at Treasury, and he felt that if there were to be a change, it should come from you.

Please let me know how you'd like to proceed.

(I came up with an additional sentence for the fifth bullet point on the first page, which could be tacked on at the end:

"Europe should pursue a two-tiered approach that combines growth-enhancing macroeconomic policies with well-targeted structural reforms in order to achieve lasting prosperity.")

Best,

-Ryan

RECORD TYPE: PRESIDENTIAL (NOTES MAIL)

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

CREATION DATE/TIME:24-MAY-1999 18:02:21.00

SUBJECT: Never mind

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

TEXT:
Hi Janet,

Seeing as how you've gone home, I called Bob Harlow at Treasury and agreed to keep the macro statement as is rather than try to mess with it further without your immediate input. He and I both agree that it isn't a big deal.

Best,

-Ryan

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Collection: 2014-0316-F

Bucket: CEA

Creation Date: 1999-05-25

Subject: Final Talking Points on Steel for Principals Calls to Dems

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

Clinton Presidential Records
Automated Records Management System
[EMAIL] and Tape Restoration Project [Email]

Collection: 2014-0316-F

Bucket: CEA

Creation Date: 1999-05-26

Subject: Integrated Steel Points and Q&A's for Principals Calls

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

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Automated Records Management System
[EMAIL] and Tape Restoration Project [Email]

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Collection: 2014-0316-F

Bucket: CEA

Creation Date: 1999-05-26

Subject: Performance Plan for USOECD Review

Creator: Ryan D. Edwards CN=Ryan D. Edwards/OU=CEA/O=EOP [CEA]

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[EMAIL] and Tape Restoration Project [Email]

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This marker identifies a responsive email, already made available within another collection.

Collection: 2014-0317-F

Bucket: CEA

Creation Date: 1999-05-27

Subject: solution to problem re GCC brief

Creator: Jeffrey Frankel <JFRANKEL@brook.edu> Jeffrey Frankel <JFRANKEL@brook.edu>

RECORD TYPE: PRESIDENTIAL (NOTES MAIL)

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

CREATION DATE/TIME:27-MAY-1999 19:43:56.00

SUBJECT: Energy Efficiency Executive Order

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

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

CC: Robert Z. Lawrence (CN=Robert Z. Lawrence/OU=CEA/O=EOP @ EOP [CEA])
READ:UNKNOWN

TEXT:
Janet,

At the June 3 Cabinet meeting, the energy efficiency executive order may be announced. At this time, the President would also announce a large DOD ESPC (energy-saving performance contract involving 800+ buildings). There is an alternative under consideration of doing a Rose Garden statement without press Q&A as well.

Here is a quick summary of the EO:

Buildings carbon emissions goal of 1990 -30% in 2010. (Current C emissions are 1990 -14%.)
Buildings energy efficiency goal of 1985 -30% in 2005, 1985 -35% in 2010. (Current energy efficiency is 1985 -19%.)
Agencies shall meet these goals "through cost-effective energy measures."
Agencies shall strive to purchase more "green" power (no goals, but no cost-effective criterion either).
OMB will play a significant role with DOE in supporting agencies efforts to comply with EO.

I will let you know when I have confirmation if it will take place at the Cabinet meeting. If you would like more information, please let me know.

Joe

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This marker identifies a responsive email, already made available within another collection.

Collection: 2014-0316-F

Bucket: CEA

Creation Date: 1999-05-28

Subject: Summary of Mission Plan

Creator: Ryan D. Edwards CN=Ryan D. Edwards/OU=CEA/O=EOP [CEA]

RECORD TYPE: PRESIDENTIAL (NOTES MAIL)

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

CREATION DATE/TIME: 1-JUN-1999 12:26:08.00

SUBJECT: Census report

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

TEXT:
This is Becky's memo to Kathy Wallman and it includes the document as an attachment

---------------------- Forwarded by Charles F. Stone/CEA/EOP on 06/01/99 12:25 PM ---------------------------

Rebecca M. Blank
05/28/99 12:30:35 PM
Record Type: Record

To: Katherine K. Wallman/OMB/EOP
cc: Charles F. Stone/CEA/EOP, Audrey Choi/CEA/EOP
Subject: Census report

Kathy --

I know you've been eagerly awaiting this: Attached is a draft of our report on "uses of the Census" which we all discussed in Janet's office with Karen Tramontano. You should read it and send any comments. IN addition, I seek your advice about who else should look at this before it's formally sent onward...clearly somebody at Census ought to. What do you think? It's a bit awkward for CEA to call up Ken Pruitt and say "You don't know about this, but here's the report on the Census we just wrote. Can you make sure we got it all ok?" A bit of preparing the ground by yourself might help.

I'm off on vacation all of next week. You should communicate with Chad Stone, who wrote this, or with Audrey Choi, our new Chief of Staff at CEA.

Thanks! Enjoy the holiday.
Becky

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

TEXT:
Unable to convert ARMS_EXT:[ATTACH.D26]ARMS213828855.136 to ASCII,
The following is a HEX DUMP:

Uses of Census Data
an Overview

a Report
by the Council of Economic Advisers
June 1999

Constitutionally, the purpose the decennial census is to assure an accurate apportionment of seats in the House of Representatives among the states based on population. Since the early 1800s, however, policy makers have recognized that an accurate census can provide other valuable information to improve the policy process. Today, policy makers at all levels of government, as well as private businesses, households, researchers, and nonprofit organizations, rely on an accurate census in myriad ways that range far beyond a simple determination of how many people live in each state. This report provides a brief overview of these uses.

I. Federal government uses

Monitoring and compliance with Federal law. Questions on ancestry, gender, race, Hispanic origin, language spoken at home, place of birth, citizenship and year of entry provided critical information for monitoring compliance with the Voting Rights Act, the Civil Rights Act, and other anti-discrimination and affirmative action plans.

Assessing economic well-being. Accurate census population assessments are critical for developing accurate assessments of economic well-being for the Nation as a whole as well as for different racial, ethnic, and regional populations.

Assisting families and low-income populations. Accurate census data are critical for programs aiming to identify areas eligible for housing assistance and rehabilitation loans; housing subsidies; job training and employment services; energy cost assistance; and community economic development. The accuracy of census data affects the allocating of funds for supplemental food programs and other social services for women and children.

Assisting the elderly, the disabled, and veterans. Accurate census data are required to determine and forecast the number of persons eligible for benefits based on age, such as Social Security and Medicare and to forecast the number of persons eligible for Social Security disability benefits. They are necessary to develop baselines for reducing employment barriers faced by persons with disabilities and to allocate funds for vocational education and rehabilitation programs for disabled workers. Accurate census data are required to determine where to build veterans hospitals, to establish baseline data for making veteran population projections, and to report to Congress on the needs of selected groups of veterans, such as Vietnam-era and female veterans.

Education. The accuracy of census data affects the allocation of funding for numerous Federal education programs such as vocational and adult education.

Other. Census data on farm residence helps USDA assess housing conditions and needs on farms. Information on place of work and journey to work helps the Federal government to formulate national transportation and energy-use policies.

II. State and local government uses.

Drawing legislative boundaries. Decisions on redistricting and the determination of state and local voting district boundaries require accurate census data.

Education. Accurate census data are critical to local government agencies and school boards trying to determine the need for new schools, including what type (elementary, middle, or high school).

Infrastructure, public health and environmental protection, and program planning. A range of state and local government planning responsibilities depend on accurate census data, including determining the need for schools, highways, public transportation, hospitals, libraries, and police and fire protection. Water and sewage disposal information helps identify needs for water purification, treatment, or sewage facilities. Farm data is used to allocate funds to land grant colleges, for cooperative extension activities, and for grants to agricultural experiment stations. Accurate census data make for better planning and implementation of a variety of programs, including education and training, health, education, and social services. Accurate census data help public health officials perform tasks such as locating areas in danger of ground water contamination and waterborne diseases. They help environmental agencies analyze energy consumption, identify conservation opportunities, and forecast energy needs.

Disaster relief. Accurate census information helps local governments to predict transportation needs in disaster recovery and contingency planning . It helps governments and relief agencies assess the amount of displacement and the shelter and recovery needs of populations affected by natural disasters such as floods, hurricanes, tornadoes, and earthquakes.

Assisting families, low-income populations, the elderly, the disabled, and veterans. Accurate census data are necessary for appropriate state implementation of Federal programs for these groups in areas such as housing assistance, energy cost assistance, community development, and employment and social services. Accurate census data also help city and community officials to pinpoint areas that need special programs such as meals on wheels and social service agencies to identify special needs such as telephone access in case of medical emergency.

III. Business uses

Product development and marketing. Accurate census data on where people of different ages live helps businesses of all kinds to develop and market their products. For example:

Comment [E1]:

C Manufacturers of baby products such as baby food, clothes, diapers, and toys, and manufacturers of maternity clothes and greeting cards need accurate information on children as they develop and market their product lines, as do television producers of children= s programs and planners of large family amusement parks.

C Architects, contractors, and real estate firms need accurate information on the size and composition of households and their housing as they design, build, and sell houses and apartments.

C Producers of consumer durables such as television sets, washing machines, and home furnishings benefit from accurate information on households and their characteristics.

C Accurate census information on language spoken at home helps television and radio stations to define foreign language service areas and marketing companies develop products and services tailored to those who speak languages other than English.

Forecasting demand. Private firms that sell services to other businesses to help them forecast demand for their products frequently require accurate census data to develop these forecasts. Utilities depend on accurate census data to develop long-range plans for new facilities and networks.

Location decisions. A variety of business location decisions are improved by accurate census data. Examples include: businesses seeking to pinpoint areas to gauge potential markets for locating new stores, plants, or warehouses; businesses interested in finding sites having a labor force with certain education characteristics; building developers and contractors selecting sites for new housing developments; and businesses seeking to pinpoint areas of a city for locating new restaurants specializing in particular types of ethnic food.

Providing equal opportunities and achieving compliance with Federal law. Accurate census data help businesses set up and monitor affirmative action and anti-discrimination plans. And they help companies to comply with anti-discrimination legislation such as the Equal Employment Opportunities Act.

IV. Community group uses

Delivering health, social, and educational services. In many cases, private social service agencies and community groups have the same needs for accurate census data as state and local government agencies that provide social services. Private groups benefit from accurate census data to set up and administer assistance programs for children, teens, and older persons; to provide services that reflect cultural differences; to teach English, and conduct voter registration drives; to provide housing and job training for displaced homemakers; to provide veteran support services and promote the need for veteran services and facilities.

Disaster relief. As with social services, non-governmental organizations benefit from accurate census information in much the same way as governments when planning for and responding to disasters like hurricanes, tornadoes, floods, and earthquakes.

V. Individual uses

Location decisions. Individuals can make better choices about home-buying, job relocation, or starting a small business if they take advantage of census information and if that information is accurate.

VI. Academic research

Accurate census data is vital to researchers in a wide variety of endeavors. Some of the most important needs include the following:

C Any research requiring information at the neighborhood level must rely on the census, with its tract level information.

C Research on ethnicity or other research requiring reasonable numbers of observations of relatively small population groups must rely on the census.

C The decennial census is the only consistent source of data for researchers examining trends over periods of decades.

C The census is the best source of information for research on immigration and mobility.

VII. Accurate census data provides the underpinnings for other surveys and data collection

<u>Creating a sampling base</u>. The decennial Census forms the sampling base for other national surveys such as the Current Population Survey, the Survey of Income and Program Participation, the National Crime Victimization Survey, the Survey of Recent College Graduates, and statistics complied by the National Center for Educational Statistics (NCES) and the National Center for Health Statistics (NCHS).

<u>Calculating rates</u>. Data from other sources is combined with data from the Census to compute rates of various indicators. For example, NCHS uses its own survey data combined with Census data to calculate numerous vital statistics and rates of health service utilization. Similarly, the Bureau of Justice Statistics uses Census data to calculate imprisonment and victimization rates, and the Federal Bureau of Investigation uses Census data to calculate crime rates.

<u>Creating national estimates</u>. Census data is used to adjust surveys to be nationally representative. For example, the NCES uses Census data to make its survey results on education indicators reflect the total United States population.

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This marker identifies a responsive email, already made available within another collection.

Collection: 2014-0316-F

Bucket: CEA

Creation Date: 1999-06-01

Subject: USOECD Mission Performance Plan Meeting

Creator: Ryan D. Edwards CN=Ryan D. Edwards/OU=CEA/O=EOP [CEA]

RECORD TYPE: PRESIDENTIAL (NOTES MAIL)

CREATOR: Audrey Choi (CN=Audrey Choi/OU=CEA/O=EOP [UNKNOWN])

CREATION DATE/TIME: 2-JUN-1999 12:24:53.00

SUBJECT: press request

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

TEXT:
do you have any interest in doing an interview with Nihon Kezei Shimbun newspaper (one of major biz papers in japan)? their washington reporter is asking for an interview with you about the general state of the economy. it's certainly not a must-do, so i'm happy to decline - but wanted to first see whether you have any interest in doing this. .thanks

Clinton Presidential Records
Automated Records Management System
[EMAIL] and Tape Restoration Project [Email]

This is not a presidential record. This is used as an administrative marker by the William J. Clinton Presidential Library Staff.

This marker identifies a responsive email, already made available within another collection.

Collection: 2014-0316-F

Bucket: CEA

Creation Date: 1999-06-02

Subject: lamb imports

Creator: Audrey Choi CN=Audrey Choi/OU=CEA/O=EOP [UNKNOWN]

RECORD TYPE: PRESIDENTIAL (NOTES MAIL)

CREATOR: Audrey Choi (CN=Audrey Choi/OU=CEA/O=EOP [UNKNOWN])

CREATION DATE/TIME: 2-JUN-1999 15:44:40.00

SUBJECT: Re: press request

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

TEXT:
fine. i've declined the request. thanks

Janet L. Yellen
06/02/99 03:29:16 PM
Record Type: Record

To: Audrey Choi/CEA/EOP
cc:
Subject: Re: press request

I would prefer not to do the interview. I find that Japanese newspapers often misquote us, and end up characterizing our views about Japan in ways that create problems.