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DOCUMENT NO. AND TYPE	SUBJECT/TITLE	DATE	RESTRICTION
001. email	Janet L. Yellen to Audrey Choi at 14:09:00.00. Subject: Fed nominees. (2 pages)	07/20/1999	b(6)

COLLECTION:

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

FOLDER TITLE:

[06/03/1999 - 07/29/1999]

2013-0723-F
ab1298

RESTRICTION CODES

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

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

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

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

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

RECORD TYPE: PRESIDENTIAL (NOTES MAIL)

CREATOR: Robert Z. Lawrence (CN=Robert Z. Lawrence/OU=CEA/O=EOP [CEA])

CREATION DATE/TIME: 3-JUN-1999 18:35:22.00

SUBJECT: Our Meeting with the AFL-CIO.

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

TEXT:
As per my meeting today with David Smith we have decided our next meeting, which we hope will take place on the 14th should cover four topics about manufacturing.

First, what has happened to manufacturing's share in our economy and in particular what has happened to productivity growth in manufacturing. Is manufacturing an important source of productivity spillovers for the rest of the economy? --- Bob Cumby. (Please call)

Second, what kinds of jobs does manufacturing provide? In particular what kinds of wages are earned in manufacturing. What are the implications of these earnings for overall inequality? -- Robert Lawrence.

Third, who is employed in manufacturing? Is manufacturing a particularly important source of employment for particular kinds of workers? In particular, what role does manufactruing play for workers with relatively low levels of education. Harry Holzer. (please call)

Fourth, what role has trade and the trade deficit in particular played in manufacturing employment growth? How does this compare to the impact of productivity and domestic demand for manufactured goods? --Janet Yellen -- using data developed by Raymond.

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: 1999-06-03

Subject: Latest Steel Study.

Creator: Robert Z. Lawrence CN=Robert Z. Lawrence/OU=CEA/O=EOP [CEA]

RECORD TYPE: PRESIDENTIAL (NOTES MAIL)

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

CREATION DATE/TIME: 3-JUN-1999 09:30:19.00

SUBJECT: Mailing Families Report to additional press outlets

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

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

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

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

TEXT:
Below here is a draft cover letter that we did with DPC that would come from you and Bruce Reed to send out the families report to additional press outlets. We were thinking of sending it to major papers' editorial boards and to specialty press like parenting and women's magazines. Bruce has signed off on the letter. please let me know whether you have any comments or changes. thanks

STATEMENT OF
JANET L. YELLEN, Chair of Council of Economic Advisors
and
BRUCE REED, Assistant to the President for Domestic Policy

Enclosed is a copy of a recent report by the Council of Economic Advisors -- Families and the Labor Market, 1969-1999: Analyzing the &Time Crunch8 -- which we believe is important and useful in understanding the challenges facing the American family today. This report summarizes dramatic changes experienced by the American family in the last three decades: changes in parents, time at paid jobs, changes in income and who earns it, changes in family size and structure, and changes in time available for children. Through this report, we seek to further our national discussion of policies that could help parents balance work and family and thus strengthen American families. One of the most striking findings in this report is that families on average have experienced a decrease of 22 hours per week (14 percent) in time available outside of paid work that was formerly available to be spent with their children.

The report also shows that the hours American parents work in paid jobs have increased enormously since 1969, due to a dramatic shift of mothers, time from the home to the labor market. In 1969, 38 percent of married mothers worked for pay; in 1996, 68 percent did so. Paid employment of single mothers rose from 53 percent to 66 percent during the same time period, so that single parents increased their average hours of paid work by 297 hours per year (28 percent). Wives, paid work time increased by 576 hours per year (93 percent), while that of husbands decreased slightly. At the same time, the share of families with a single parent has expanded greatly since 1969, from 13 percent to 30 percent of all families. This has increased the proportion of families that are & cash-strapped8 and &time-poor.8

The average family is better off economically today than in 1969. Women,s wages have increased as well as their hours worked for pay, so that women,s annual earnings have gone up substantially. Wives, hourly wages increased by 52 percent between 1969 and 1996, while those of single parents increased by 17 percent.

The reduction in parents, available time outside of market work raises challenges for policy-makers seeking to promote strong families, including the need for flexibility in paid work hours, the need for available and affordable child care, the need to support the earnings of families with low-wage earning parents, and the need to encourage two-parent families to form and stay together.

RECORD TYPE: PRESIDENTIAL (NOTES MAIL)

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

CREATION DATE/TIME: 4-JUN-1999 09:35:53.00

SUBJECT: potus statement re jobless numbers

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

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

TEXT:
NEC has decided that they DO want a POTUS statement on it. they are working on it now and will run it by us soon. they are asking that we hold off on our statement -- at least for now.

RECORD TYPE: PRESIDENTIAL (NOTES MAIL)

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

CREATION DATE/TIME: 4-JUN-1999 16:40:55.00

SUBJECT: FYI -- here is the POTUS statement on the Jobless numbers

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

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

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

TEXT:
THE WHITE HOUSE

Office of the Press Secretary

For Immediate
Release June 4,
1999

STATEMENT BY THE PRESIDENT

Today, we have more good news about continuing prosperity in our economy. The unemployment rate fell to 4.2 percent, marking the 23rd month in a row that the rate has been below 5 percent and the lowest rate in 29 years. Combined with the continued strong overall economic growth, low long-term inflation and continued rising wages, we are widening the circle of opportunity for more Americans. African American unemployment fell to the lowest level on record. Nearly 19 million jobs have been created since 1993, and nearly 1 million jobs have been created in the first 5 months of this year, showing the continued strong pace of job creation. We need to continue our commitment to our proven economic strategy of fiscal discipline, opening markets abroad and targeted investments in our people.

30-30-30

RECORD TYPE: PRESIDENTIAL (NOTES MAIL)

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

CREATION DATE/TIME: 4-JUN-1999 10:16:12.00

SUBJECT: Murkowski Qs and As

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

TEXT:
Janet,

Attached are draft responses to the questions we received from Murkowski and others on the Senate Energy Committee. Robert has already looked through them, and thought they looked fine. Let me know if you have any suggested edits, or if they are good to send to OMB for interagency clearance. Thanks,

Joe

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

TEXT:
Unable to convert ARMS_EXT:[ATTACH.D14]ARMS293262262.136 to ASCII,
The following is a HEX DUMP:

Draft Responses to Senate Energy and Natural Resources Committee Questions

Senator Murkowski

Q1) It is my understanding that when asked if any studies had been done on the impact on labor of the proposed Kyoto Protocol, the Department of Labor responded to the inquiry by sending out a copy of the DRI study commissioned by the United Mine Workers of America. Is that correct? Is so, is the DRI study the Administration's official position?

A1) The July 1998 report "The Kyoto Protocol and the President's Policies to Address Climate Change: Administration Economic Analysis" is the only document that reflects the Administration's official position on the potential economic effects of the Kyoto Protocol.

Q2) Is it correct that only developed nations, or "Annex I" parties to the Framework Convention can participate in emissions trading?

A2) Article 17 of the Kyoto Protocol notes that "[t]he Parties included in Annex B may participate in emissions trading for the purposes of fulfilling their commitments under Article 3 of this Protocol." While most countries listed in Annex B of the Protocol are listed as Annex I parties to the Convention, there are a few exceptions.

Q2a) How many nations are included?

A2a) 38.

Q2b) How many of them are trade competitors of the United States?

A2b) The United States engages in trade in goods and services with all 37 other Annex B countries.

Q2c) Why would these countries want to sell emissions credits to the U.S. if they need them for their own economic growth?

A2c) Countries undertaking rational economic behavior to comply with Annex B targets will engage in emissions trading to the extent that such participation maximizes their economic gains. A country that is a net buyer (as well as firms that are net buyers) would engage in trading to minimize the costs of their compliance with the Protocol. A country that is a net seller (as well as firms that are net sellers) would engage in trading to maximize the benefits from trading while complying with the Protocol. A country could reduce emissions below its target, and sell these excess emissions allowances to the United States or other

Annex B countries, and be made better off. Thus the trading system could promote economic growth, not hinder it, for these selling countries.

Q3) Did CEA use any of the Energy Information Administration analysis as input to its analysis? If not, why not?

A3) In evaluating the economic effects of the Kyoto Protocol, the Administration reviewed the existing economic literature on climate change. This review included an assessment of modeling efforts coordinated by the Stanford Energy Modeling Forum, the OECD, and the Interagency Analytical Team. EIA did participate in the IAT, and the IAT draft report released in July 1997 included some of the EIA NEMS analysis completed to date. In addition, EIA completed an economic analysis of stabilizing carbon emissions to 1990 level by 2010 in October 1997 for the Office of Policy and International Affairs in the Department of Energy. This EIA work served as some of many inputs in our understanding of the Kyoto Protocol.

Q4) Who conducts the "peer review" of the CEA analysis? Does this include the EIA? If not, why not?

A4) The Administration's economic analysis has not been peer-reviewed. CEA had the lead in preparing the document and CEA, as a matter of policy, does not submit its reports for peer review. As a document reflecting the Administration's position on the economic effects of the Kyoto Protocol and the President's climate change policies, it did undergo review by those agencies with a vested policy interest. EIA, as an independent statistical agency, does not comment on policy matters and thus did not participate in this internal review.

Q5) You mentioned in your testimony that meetings in Buenos Aires regarding Annex I trading "went well." WEFA says about the same meetings that "no substantial progress was made." What do you think accounts for the difference of opinion? Please elaborate on why you believe the meetings "went well."

A5) [Note: in reviewing the written testimony and the Q&A transcript, Janet made no reference to BA trading negotiations going well. I suggest that we follow-up with Committee staff and request that they note the excerpt in the testimony where Janet supposedly said this.]

Q6) To address global warming, most agree that some precautionary, non-regulatory measures to slow emissions of carbon into the atmosphere are appropriate and prudent at this time. Shouldn't the continued domestic use of nuclear power be one of those precautionary measures?

A6) Nuclear power is an important component of the nation's energy portfolio and will continue to play an important role. The Administration supports clean, safe nuclear power. For example, the Administration has proposed funding for the Department of Energy's new Nuclear Energy Plant Optimization program. This R&D program will assist utilities improve the reliability and safety of older reactors to facilitate relicensing and extend the useful life of these reactors. In addition, the Administration supports the Department of Energy's Nuclear Energy Research Initiative to fund collaborative partnerships among national laboratories, universities, and industry R&D organizations to conduct research on proliferation-resistant reactors and fuel technologies, new techniques for on-site and surface storage of nuclear waste, and other advanced design applications.

Q7) The President is personally committed to efforts to control greenhouse gas emissions. Yet, this same President continues to oppose legislation passed by both the House and the Senate to allow the U.S. Government to fulfill its obligation to provide safe, centralized, managed storage of spent nuclear fuel. Given that safe and efficient management of spent fuel is critical to the continued viability of nuclear power, and nuclear power is currently our only large-scale source of carbon-free electricity, how is the Administration reconciling these two seemingly opposite positions?

A7) The Administration is committed to resolving the nuclear waste management issue in a timely and sensible manner, consistent with sound science and the protection of public health, safety and the environment. We believe that the Federal government's long-standing commitment to permanent, geologic disposal should remain the basic goal of high-level radioactive waste management policy. The Administration understands the concerns of the utility industry, public utility commissions, and others about the inability of the Department of Energy to accept spent nuclear fuel, and the Department has made every effort to work cooperatively with the affected parties to find satisfactory ways of mitigating the impacts of this delay and will continue to do so. The Administration is confident that acceptable solutions are available that will enable the continued operation of existing nuclear power plants through the remainder of their useful lives, with the concomitant benefits for U.S. efforts to reduce the anticipated growth in greenhouse gas emissions.

Q8) EPA currently restricts many types of emissions under the Clean Air Act, and has recently added new, more stringent restrictions for ozone, particulate matter, and nitrous oxides. Carbon dioxide controls would also be added under the President's Global Climate position. Won't this country's energy policy have to maintain a robust nuclear generation industry as part of the energy portfolio if these ever-intensifying standards are to be achieved?

A8) Nuclear power is an important component of the nation's energy portfolio. The Administration believes that nuclear power will continue to play an important role in providing electricity to consumers without emissions of air pollutants common to some other forms of electricity generation.

Q9) In page one of your testimony, you indicated that your analysis shows that costs of Kyoto can be "modest" if there is "meaningful developing country participation."

Q9a) Please describe what you mean by "meaningful developing country participation."

A9a) Climate change is a global problem that requires a global solution. Current projections show that developing country emissions will surpass those from industrialized countries by 2020. The problem of climate change cannot be solved unless developing countries take measures themselves to limit greenhouse gas emissions.

The U.S. has worked and will continue to work bilaterally, regionally, and multilaterally to promote more active efforts by developing countries to limit their emissions. We have and will continue to concentrate on key countries and on approaches that are consistent with the economic growth and development of these countries and with other environmental objectives. We will not submit the Kyoto Protocol to the Senate for advice and consent to ratification until we feel we have achieved meaningful participation from key players in the developing world.

We must also recognize that the term "developing country" encompasses a wide range of nations which are at various stages of industrialization and contribute differently to global emissions. Accordingly, there is no one-size-fits-all approach to measuring developing country participation. Clearly, a country with high GDP per capita or one that emits a proportionally large share of global emissions should be expected to do more than one that is poor or whose emissions are negligible.

Q9b) Does it include China?

A9b) Given its share of global emissions, we consider China a key developing country.

Q9c) What assumption did you make in your analysis? Does China have to participate for there to be "modest" costs?

A9c) The conclusion that the costs of an effective and global implementation of the Kyoto Protocol is based on a substantial review of the economics literature on climate change. In the illustrative analysis undertaken by the Administration with the Second Generation Model, we took advantage of the structure of the model to evaluate the effects of four large developing countries adopting targets. In the SGM, there are separate modules for China, India, Mexico, and Korea, while all other developing countries are grouped into a "Rest of the World" module. In estimating a permit price of $23 per ton, we assumed that these four developing countries adopted emissions targets set at their 2010 business as usual emissions level and participated in emissions trading with Annex I countries.

We believe that the participation of China would be mutually beneficial, and that it should make a contribution to the global effort to address climate change. However, it is not necessary for China to adopt an emissions target for the costs to be "modest."

Q9d) Have you received any indication that China will agree to emissions limitations?

A9d) The Administration has discussed this issue previously with the Government of China, and we will continue to do so in the future.

Q10) What find of future do you see for nuclear power and hydroelectric power if the U.S. has to abide by Kyoto or Kyoto-like targets?

A10) The Administration continues to support nuclear and hydroelectric power as important components of our nation's energy portfolio. We believe that they will continue to play an important role as well.

Q11) Some people have expressed concerns that when the U.S. has to absorb the costs of saving social security and complying with Kyoto at the same time, there could be a very negative effect on our current budget surplus. How should this be handled?

A11) The President's proposal for Social Security reform would dedicate most of the projected budget surpluses for the next 15 years to Social Security reform, with smaller shares for reforming Medicare, establishing USA accounts to encourage personal saving, and addressing critical national needs. This last piece would include military readiness, education, and research. While the Administration will continue to fund climate change research, such as through the Global Climate Research Program, and energy efficiency and renewables R&D, such as through the Climate Change Technology Initiative, we do not envision Federal outlays on implementing Kyoto of the magnitude to have a very negative effect on our current budget surplus.

Senator Graham

Q1) Does the Administration's analysis estimate the economic and environmental benefits of addressing climate change?

A1) The Administration did not undertake an independent assessment of the climate change-related economic and environmental effects of mitigating climate change risks. However, we did review several existing analyses from the economics literature on this issue. These studies found that a doubling of atmospheric concentration of carbon dioxide could result in annual U.S. economic costs on the order of 1% of GDP. Please refer to pages 69-70 of "The Kyoto Protocol and the President's Policies to Address Climate Change: Administration Economic Analysis" for more discussion of these studies.

The Administration did make an illustrative calculation of the possible air quality ancillary benefits associated with abating greenhouse gases. By reducing emissions of carbon dioxide, emissions of particulate matter and ozone precursors are also reduced. We found that the economic benefits of reducing emissions of these local air pollutants could offset at least one-quarter of the direct resource costs from abating greenhouse gases. Please refer to pages 66-69 of "The Kyoto Protocol and the President's Policies to Address Climate Change: Administration Economic Analysis" for more discussion of this analysis.

Q2) Have the costs associated with not taking action been analyzed?

A2) Please refer to the response to question 1.

Q3) What assumptions has the Administration made in the analysis regarding the U.S. nuclear energy industry? Are the assumptions consistent with the Energy Information Administration's forecast for the future U.S. nuclear power production? If not, what is the basis for the difference?

A3) The model used for the Administration's illustrative analysis -- the Second Generation Model -- is benchmarked to the EIA Annual Energy Outlook for the United States. The version of SGM used for this analysis was based on the 1997 Annual Energy Outlook, so assumptions regarding nuclear power in the future under business as usual are consistent with EIA assumptions. For a detailed explanation of how various energy sectors respond to a tradable permit system in SGM, please refer to pages 96-392 of "The Kyoto Protocol and Its Economic Implications", hearing before the Subcommittee on Energy and Power of the Committee on Commerce, House of Representatives, March 4, 1998.

Q4) Has the Administration considered the impact that the lack of a clear nuclear waste policy may have on the future of the nuclear power industry?

A4) No.

Q5) Does your economic model include an uncertainty analysis (i.e., standard deviation, variance)? Have you performed sensitivity analyses for your baseline assumptions?

A5) No.

Senator Craig

I) July 1998 Report on the Kyoto Protocol

The Administration's July 1998 report concluded that the economic costs of complying with the Kyoto Protocol would be "modest." Specifically, predicted that the cost would be 0.1 percent of Gross Domestic Product. The report explained that this result assumed that reductions would be achieved in an "efficient manner." This is defined as employing all three "flexibility mechanisms" provided for by the Protocol: emissions trading, the Clean Development Mechanism, and joint implementation.

QI1) Your report states that the economic costs of complying with the Kyoto Protocol would be "modest." The report explains that this result assumes domestic and international emissions trading and other flexibility mechanisms. However, the report does not explicitly state how much of the United States' emissions reduction target will be achieved by trading and other flexibility mechanisms. In your model, what share of the United States' reduction target would be achieved by trading and other flexibility mechanisms and what share would be achieved by reducing domestic emissions?

AI1) The illustrative model we used -- on the assumption of international trading with industrialized and key developing countries -- assumes 25% domestic action at a permit price of $23 per ton, but that is not an accurate representation of what the Administration thinks will be done domestically because this model output explicitly excludes domestic policies that the Administration believes could have a large impact on the amount of reductions accomplished at home.

First, the Administration's electricity restructuring proposal is estimated to result in 40-60 million tons of reductions, or up to 10% of the reductions necessary to comply with the Kyoto target. Second, the Protocol allows for sink mitigation activities to be used to offset emissions, and the Administration believes there is large potential here. The Administration Economic Analysis cites two studies that claim very large possibilities for carbon sequestration from forestry activities. With good interpretive provisions negotiated and reasonable policies, we could have sizable reductions from sequestration -- perhaps in 5-10% range or higher. Third, the President has offered a $6.3 billion R&D and tax initiative to spur technology, and that there will presumably be other policies offered in the 10-year period between now and 2008. This technology-focused effort could further reduce emissions. Finally, other efforts, like voluntary agreements with industry sectors and federal energy reform, could further increase amount of domestic reductions.

QI2) In estimating the costs of a proposed policy change, responsible policy analysis normally involves making a range of reasonable assumptions and, thus, producing a range of results. That is certainly true of many other studies of the costs of complying with the Kyoto Protocol. I am puzzled that your study apparently used only one set of assumptions and, thus, produced only one result. Did you use only one set of assumptions? If so, would you consider that to be responsible policy analysis? Alternatively, did you use other sets of assumptions and produce other results? If so, what were the assumptions and results?

AI2) In conducting the economic analysis of the Kyoto Protocol, the Administration evaluated a wide array of possible scenarios, including various international emissions trading blocs, ranges of estimates of carbon sink activities, and different assumed rates of autonomous energy efficiency improvement (AEEI). In presenting our results, we made the decision that the scenario should reflect the Administration's position and policies on climate change, including efficient international trading, while being conservative, including assumptions of zero carbon sink activities throughout the world and an AEEI consistent with the Energy Information Administration's forecast. The Administration believes that carbon sinks have the potential to provide significant cost-savings and efforts to promote technologies, such as the Climate Change Technology Initiative, could accelerate the deployment of energy efficient products and processes.

For a comprehensive presentation of the results from these various scenarios, please refer to pages 96-392 of "The Kyoto Protocol and Its Economic Implications", hearing before the Subcommittee on Energy and Power of the Committee on Commerce, House of Representatives, March 4, 1998.

II) International Emissions Trading

The Administration's economic estimate of the cost of complying with the Kyoto Protocol apparently assumes extensive international trading of emissions credits. Russia, Ukraine, and other countries of the former Soviet union are widely discussed source of such credits. This is due to the expectation that the former Soviet Union's economy will not, by 2010, have recovered to its 1990 level. According to the Energy Information Administration, the former Soviet Union emitted 991 million metric tons in 1990 and is expected to emit 792 million metric tons in 2010 (*International Energy Outlook* -- 1998).

The former Soviet Union's agreed-to goal for the first budget period (2008-12) is its 1990 level -- no decrease. Thus, the former Soviet Union would be able to sell 199 million metric tons to the United States or other nations, to help them meet their targets.

QII1) Do you agree with the Energy Information Administration's estimate that the former Soviet Union emitted 991 million metric tons in 1990 and is expected to emit 792 million metric tons in 2010 -- a reduction of 199 tons? Is it true that, despite its expected reduction in emissions between 1990 and 2010, Russia and Ukraine are required to make no reduction from its 1990 emission level by the first budget period? Can you help us understand why such a no-reduction goal was acceptable for the former Soviet Union, while the United States needs to achieve a 31% reduction by 2010?

AII1) Through its annual publication of the International Energy Outlook, EIA provides forecasts for countries and regions from around the world on a variety of energy-related indicators, including carbon dioxide emissions. Other organizations, such as the International Energy Agency, also make forecasts of energy variables, including carbon dioxide emissions. Given the inherent uncertainty associated with emissions forecasts, we cannot state definitively that we agree with any specific emissions estimate. We would note, for example, that EIA, in its 1999 International Energy Outlook, has revised its forecast for the Former Soviet Union for 2010. However, we would agree that, given current expectations about economic performance and energy sector activities, the former Soviet Union countries will have carbon dioxide emissions levels well below their 1990 levels during the first commitment period.

Russia and Ukraine have emissions targets set at their 1990 emissions levels in Annex B of the Kyoto Protocol. The emissions targets for these countries, as well as for all other Annex B countries, and the various provisions of the Protocol reflect a negotiated compromise. Thus, in order to ensure their participation, the Conference of the Parties agreed to Russian and Ukrainian targets set at their 1990 levels.

QII2) Assuming that there is international trading of emissions credits, wouldn't the former Soviet union be able to sell those 199 tons to other countries? Are these 199 tons sometimes referred to as "hot air?" Would the former Soviet Union be able to sell those credits -- potentially reaping billions of dollars -- even if it does not any steps to reduce its emissions? Is there any net reduction in worldwide emissions as a result of selling the "hot air" credits? If not, how will the environment benefit? If there is no environmental benefit, why transfer billions of dollars to the former Soviet Union?

AII2) While the rules for international trading have not yet been developed, the United States supports rules that would promote an efficient trading system. Given the difficulties in evaluating whether a country's emissions level reflected economic performance or emissions abatement policies, the United States is opposed to verifying emissions reductions for the purposes of participating in emissions trading. Such a requirement would require burdensome information gathering and compiling, and increase the costs of trading.

The so-called "hot air" -- the term used by the European Union -- would be tradable in an efficient international emissions market. However, trade in these emissions allowances that exceed their actual emissions during the commitment period would not undermine the climate goal of Kyoto. If trading constraints are established that restrict the ability of Russia to sell permits (or restrict the opportunity for other Annex I countries to buy Russian permits), then emissions during the first commitment period would be lower than in the absence of such constraints. However, Russia would simply bank its allowances and use these allowances in a subsequent commitment period when its emissions exceed its target. While a trading constraint might lower emissions during the first commitment period, the cumulative emissions over several commitment periods from Annex I countries would be the same with and without the trading constraint. Given the long residence times of greenhouse gases (on the order of a 100 or more years), the cumulative effect is what is most relevant in terms of changes in the global climate.

QII3) It might be argued that such an arrangement is needed to entice the former Soviet Union to become involved in a multinational effort to reduce greenhouse gas emissions. However, even if the former Soviet Union were to sell its "hot air" credits in the first budget period, would there be any necessary carry-over beyond 2012? Is there a legal obligation for the former Soviet Union to be involved beyond the first budget period? In essence, couldn't it reap a windfall in the first budget period and then refuse to participate unless there were another windfall?

AII3) All countries have the opportunity under the Kyoto Protocol to opt to leave the agreement with one year's notice. Further, under the Protocol, no country has a legal obligation beyond 2012. Thus, any hypothetical about subsequent commitments could be possible.

III) Emissions Reductions for the United States and Other Nations

Most economically developed countries agreed, in the Kyoto Protocol, to reduce their emissions during the first "budget period" -- 2008-2012. For example, Japan agreed to a 6% reduction below its 1990 emissions level; the United States, to a 7% reduction; and the European Union, to an 8% reduction. Thus, the United States' goal appears to be right in line with the Japanese and European Union goals. However, it is important to note that these reductions are -- with extremely minor exceptions -- relative to 1990 emissions levels, regardless of where we would have been in 2008-2012 without the Kyoto Protocol. Thus, in determining the total reduction needed, one must take into account two factors: (1) where a country's emissions level would have been -- absent Kyoto -- in 2010 (the mid-point of the budget period) and (2) the agreed-to reduction below the 1990 level. Although the agreed-to reduction for the United States is roughly the same as the others' reductions, our economy has been, and is expected to be, more robust. Thus, the United States will need to make deeper reductions than the Japanese and the European Union economies. Specifically, the independent Energy Information Administration (*International Energy Outlook* -- 1998) estimated that the United States will need to reduce emissions by 31%; Japan, by 25% and the European Union, by 19%.

QIII1) I understand that the United States committed, in Kyoto, to a 7% reduction in greenhouse gases. Is that the same level of reduction as agreed to by Japan, the European Union, and other industrialized countries?

AIII1) The United States agreed to an emissions target of 1990 -7% for the 2008-2012 period, conditioned by the use of 1995 as the base year for PFCs, HFCs, and SF_6, and the use of specified carbon sink activities that could offset some emissions. With this formulation of a target, Japan agreed to 1990 -6%, while the EU agreed to 1990 -8%. How these targets translate into reductions from business as usual levels for 2008 to 2012 depends on emissions forecasts for all six greenhouse gases and carbon sink activities. EIA only makes forecasts for emissions of carbon dioxide from fossil fuel combustion. Moreover, its forecasts do vary some from year to year (refer to the 1999 International Energy Outlook for the latest EIA carbon dioxide emissions forecasts). Forecasts also vary from one organization to another. The International Energy Agency of the OECD also forecasts carbon dioxide emissions. In its 1998 World Energy Outlook, the IEA found, for example that OECD Europe emissions in 2010 would be 27% above an emissions level equal to a 1990 -8% carbon dioxide target while OECD North America emissions in 2010 would be 29% above an emissions level equal to a 1990 -7% carbon dioxide target and OECD Pacific emissions in 2010 would be 28% above an emissions level equal to a 1990 -6% carbon dioxide target. Thus, while we can state with certainty the Kyoto targets with respect to base year emissions, there is uncertainty with respect to describing emissions targets relative to forecast business as usual emissions.

QIII2) Is it true that this represents a 7% reduction against 1990 levels? If so, is it also true that the reduction does not account for likely growth between 1990 and 2008-2012?

AIII2) Annex B targets are designed as a percentage change from a base year. For the United States, the base year is 1990 (however, as noted in AIII1, the United States may use 1995 as the base year for PFCs, HFCs, and SF_6). Further, the Protocol allows for specified activities from 1990 through 2012 that contribute to carbon sequestration to also count towards an emissions target. The nature of this commitment is a fixed quantitative target, and does not explicit incorporate emissions growth between 1990 and the commitment period.

QIII3) How much are the United States' emissions expected to grow -- under a business as usual scenario -- between 1990 and 2010 (the mid-point of the budget period)? How does that compare with expected growth for Japan and the European Union? Isn't it true that, taking into account expected economic growth, the United States has taken on a much more ambitious target than other industrialized countries?

AIII3) As noted above, emissions forecasts vary from year to year and from one forecasting organization to another. This makes it difficult to state definitively if one country's target is more ambitious than another's. More importantly, the stringency of a target is not simply a function of the percentage change in emissions from business as usual, but also the opportunities for reducing emissions, both at home and abroad. With an efficient international emissions market, all participating countries should pay the same price for reducing a ton of greenhouse gas. Thus, while targets may vary, the incremental effect on energy prices would be common across these countries. Even without the international flexibility mechanisms, the costs of abating emissions could vary significantly across countries. Some models find that with the targets specified in the Kyoto Protocol, and assuming no international trading, the domestic marginal cost of abatement would be higher in the EU and Japan than in the United States. These results indicate that the United States may not have taken on a uniquely ambitious target.

RECORD TYPE: PRESIDENTIAL (NOTES MAIL)

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

CREATION DATE/TIME: 4-JUN-1999 10:40:38.00

SUBJECT: Jobs Statement-- HOLD OFF UNTIL FURTHER NOTICE

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

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

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

TEXT:
POTUS statement is still being worked on. We will need to continue to hold off with our statement until after POTUS and further coordination with our friends at the NEC. Thanks

RECORD TYPE: PRESIDENTIAL (NOTES MAIL)

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

CREATION DATE/TIME: 6-JUN-1999 12:10:08.00

SUBJECT: Medicare Principle's Meeting

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

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

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

TEXT:
The topic of the Principle's meeting on Friday evening, June 4th, was provider payment policies. As Jack Lew clearly stated during the meeting, the objective was to decide how to "compensate" the various providers so they will support the President's plan, or at least not be completely opposed to the plan. Although some providers are showing financial distress, apparently there is really very little evidence that supports the providers' claims that BBA 1997 caused them severe distress. However, it has been determined that some of these groups must be appeased if the President's proposal is going to get off the ground.

Larry Summers voiced his concern about the use of the surplus to fund the drug benefit. He argued that, although he is not informed enough to know which provider give-backs/fixes to incorporate, the drug benefit should be paid for by Medicare savings and the surplus in the ratio of 3 to 1. I think Gene is willing to dip into the surplus for a greater share.

The tentative plan is to release the President's plan on June 15th -- one week from this Tuesday. However, there was substantial support for postponing the announcement until June 24th.

Principles in attendance: Summers, Sperling, Lew, Stein, Shalala, Kagan, Beier.
Meeting time: 5:45 to 7:30pm, Friday, June 4th in Gene's office.

P.S. My last day at the CEA is this Friday, June 11th. Therefore, we need to discuss who will take over this portfolio.

RECORD TYPE: PRESIDENTIAL (NOTES MAIL)

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

CREATION DATE/TIME: 7-JUN-1999 13:25:07.00

SUBJECT: State of the Unions

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

TEXT:
Janet -

I have attached two worksheets. The first (employ.wk4) is a one-sheet summary analysis
of developments in industrial sector employement from January 1993 to December 1998.
Our methodology was the following: we acquired monthly data on employment, output, imports
and exports in 72 industrial categories (which our Fed contacts consider a good aggregate for
"all manufacturing"). For each of the 72 categories, we decomposed the change in employment
into that change attributable to changes in domestic consumption, imports, exports and productivity.
Although this was an identity relationship (see below for identity), not a regression, the results should
be interpreted in a ceteris paribus fashion; i.e., "if nothing else had changed, the rise in prodctivity
from January 93 to December 98 would have driven down employment by 43 percent."
I then aggregated these changes to give a measure of the drivers of employment changes in the
manufacturing sector as a whole. I did this for three time periods: Jan93-Dec98, Jan93-July97 (pre-Asia
crisis), and July-97-Dec 98. The results are contained in this summary worksheet:

An interesting result: although employment has not grown as much in the period
post-July 97, and the impact of trade on employment has been greater (i.e. a larger
negative effect), this cannot be blamed on an import surge: the effect of imports on
employment is actually less in the post 7/97 period than in the 1/93-7/97 period; in
fact, it is the much weaker boost to employment from exportsthat explains trade's greater effect.

All the data and the derivation of the results summarized in employ.wk4
are contained in
decompos.wk4, attached here:

This also contains the decompositions for the individual industries.
(WARNING: this is a very complicated and detailed worksheet - - enter at
your own risk!)

I am working now to update the data set. Also, I could perhaps improve the
summary
table by including decompositions for selected individual industries
(steel comes
to mind, of course). What do you think?

Please contact me with any questions - - I am eager to modify or improve
this worksheet
any way you would find helpful.

Raymond

Identity: dE/E = (dC/C)*(C/Q) + (dX/X)*(X/Q) - (dM/M)*(M/Q) -
(1+(dE/E))*(dP/P)
where E = employment; C = domestic consumption, X = exports, M =
imports, P = productivity=================== ATTACHMENT 1 ===================
ATT CREATION TIME/DATE: 0 00:00:00.00

TEXT:
Unable to convert ARMS_EXT:[ATTACH.D18]ARMS22973736B.136 to ASCII,
The following is a HEX DUMP:

FOIA Number: 2013-0723-F

Clinton Presidential Records Automated Records Management System [EMAIL]

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

Hex Dump file is not in a recognizable format, has been incorrectly decoded or is damaged.

File Name: p_a6373791_cea_html_1.xls

Attachment Number: [ATTACH.D18]ARMS22973736B.136

FOIA Number: 2013-0723-F

Clinton Presidential Records Automated Records Management System [EMAIL]

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

Hex Dump file is not in a recognizable format, has been incorrectly decoded or is damaged.

File Name: p_a6373791_cea_html_2.xls

Attachment Number: [ATTACH.D18]ARMS27973736C.136

RECORD TYPE: PRESIDENTIAL (NOTES MAIL)

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

CREATION DATE/TIME: 8-JUN-1999 15:22:29.00

SUBJECT: Ministerial Cable

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

TEXT:
Hi Janet,

The State Department has asked me for any "post mortem" comments on the Non-Members dialogue and the Ministerial, in preparation for their draft reporting cable.

I think we can wait until the draft cable comes out, said to be tomorrow, but if there's anything in particular you'd like them to put in it from the get-go, you could let me know.

Best,

-Ryan

PS How does it feel to be "outed" on the return to Berkeley? :)

RECORD TYPE: PRESIDENTIAL (NOTES MAIL)

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

CREATION DATE/TIME: 8-JUN-1999 15:35:57.00

SUBJECT: Re: Ministerial Cable

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

TEXT:
I have no particular comments on the Non Members postmortem. The outing was unplanned.

RECORD TYPE: PRESIDENTIAL (NOTES MAIL)

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

CREATION DATE/TIME: 9-JUN-1999 16:31:38.00

SUBJECT: roll out maybe Friday -- prepare C:\WORK

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

TEXT:
We are striving to make the roll out happen starting Friday,
beginning with Chad in his post-WEB state.

If any of you are planning to be on leave in the next week or so,
be aware that your PC might be reloaded while you are away.

Please get your data files all collected under your C:\WORK directory for
safekeeping.

RECORD TYPE: PRESIDENTIAL (NOTES MAIL)

CREATOR: Malcolm R. Lee (CN=Malcolm R. Lee/OU=OPD/O=EOP [OPD])

CREATION DATE/TIME: 9-JUN-1999 12:36:03.00

SUBJECT: Steel Principals FYI

TO: Joshua Gotbaum (CN=Joshua Gotbaum/OU=OMB/O=EOP@EOP [OMB])
READ:UNKNOWN

TO: ebtpp.@cais.com (ebtpp.@cais.com @ inet [UNKNOWN])
READ:UNKNOWN

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

TO: David W. Beier (CN=David W. Beier/O=OVP@OVP [UNKNOWN])
READ:UNKNOWN

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

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

TEXT:
The agenda and global initiative paper as background for principals
meeting.
---------------------- Forwarded by Malcolm R. Lee/OPD/EOP on 06/09/99
12:29 PM ---------------------------

Malcolm R. Lee
06/09/99 11:41:27 AM
Record Type: Record

To: Ebiel@doc.gov @ inet, earp_gordana@ustr.gov@INET@VAXGTWY
cc: Lael Brainard/OPD/EOP@EOP, Sharon H. Yuan/OPD/EOP@EOP
Subject: Can Ambassador Barshefsky and Secretary Daley Speak at
Principals Meeting on Global Steel Initiative?

Can your bosses give an overview of the possible elements of a global
steel initiative at the principals meeting today? ML

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

TEXT:
Unable to convert ARMS_EXT:[ATTACH.D87]ARMS23999766H.136 to ASCII,
The following is a HEX DUMP:

NEC Principals Meeting
Steel

AGENDA

I. Update on Administration's Policy and State of Steel Industry (CEA/Commerce)

II. Quota Legislation

- Status
- Legislative Strategy
- Communications Strategy

III. Possible Additional Administration Initiatives

- Section 201 Reform
- Enhanced Monitoring and Enforcement
- Global Steel Initiative
- Byrd Loan Guarantee Legislation
- Changes to Dumping/CVD Laws

FOIA Number: 2013-0723-F

Clinton Presidential Records Automated Records Management System [EMAIL]

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

Hex Dump file is not in a recognizable format, has been incorrectly decoded or is damaged.

File Name: p_g6679992_cea_html_2.doc

Attachment Number: [ATTACH.D87]ARMS25999766I.136

RECORD TYPE: PRESIDENTIAL (NOTES MAIL)

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

CREATION DATE/TIME: 9-JUN-1999 17:03:07.00

SUBJECT: CNN Business Morning

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:
Janet, just a few details about the taping tomorrow. As you know, this show starts CNN programming for a day. It is a one hour long show (6-7) that focuses on markets and business. You will be in the second half that starts at 6:40. You will be the only guest in this segment of the show. (FCC Chair Bill Kennard may be in the first half of the show.)

You will give a 5-minute interview. There are two anchors, Bill Tucker & John Defterios. They are both business reporters. They were not yet sure which will conduct the interview or whether they will do it together.

The basic things they would probably ask you about are (in no particular order)
1) CEA in general
2) Your departure
3) Who might replace Alice Rivlin at the fed
4) Fed Hike (i told them we don't comment on the fed, so they may skip this. otherwise, they know that you'll say we don't comment on the fed)
5) Unemployment
6) Global Economic situation
7) state of the U.S. economy

hope that's helpful to get mentally prepped. thanks, ac

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: 1999-06-20

Subject: Draft Steel Action Plan for Principals Call Sunday.

Creator: Malcolm R. Lee CN=Malcolm R. Lee/OU=OPD/O=EOP
[OPD]

RECORD TYPE: PRESIDENTIAL (NOTES MAIL)

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

CREATION DATE/TIME: 6-JUL-1999 12:21:51.00

SUBJECT: Re: Query from the New York Times Magazine

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

TEXT:
I would rather not be interviewed for the NY Times piece.

RECORD TYPE: PRESIDENTIAL (NOTES MAIL)

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

CREATION DATE/TIME: 6-JUL-1999 15:31:50.00

SUBJECT: WSJ story on productivity and the budget

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

TO: Linda Ricci (CN=Linda Ricci/OU=OMB/O=EOP@EOP [OMB])
READ:UNKNOWN

TO: Robert B. Anderson (CN=Robert B. Anderson/OU=OMB/O=EOP@EOP [OMB])
READ:UNKNOWN

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

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

TEXT:
Although I do not know the scope of the article that Alejandro Bopido-Memba is writing for the Wall Street Journal, it will include a statement similar to,

"If productivity growth had been projected at 2 percent rather than the 1.4 to 1.6 percent growth in the Administration forecast, the surplus in 2015 would be higher by about 3 percent of GDP rather than the $____ surplus that the Administration is projecting. "

I helped Alejandro with the 3 percent figure based on chart 2-8 (p34) in Analytic Perspectives (Bob Anderson also helped indirectly), and the productivity disscussion on page 7 of the MSR. I spoke strictly on background but encouraged him to quote the MSR. I told Alejandro to talk to Linda Ricci about the surplus figure in 2015 (and I told him to call Linda anyway).

I don't know how he is going to justify the 2 percent productivity figure in the long run. (Presumably he will search for a few business economists to say that 2 percent would be a reasonable forecast)

RECORD TYPE: PRESIDENTIAL (NOTES MAIL)

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

CREATION DATE/TIME: 8-JUL-1999 21:05:35.00

SUBJECT: census report

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

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

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

TEXT:
just got feedback from karen tramontano on the census report we did for her. she feels that there are two issues that need to be "beefed-up" in the report -- one is the reliance on the census for our statistical data -- and the other is how important statistical data is to the government, business and society.

i already conveyed to her that we had had a hard time trying to put a value or number on the importance of the data ---- but i think she needs us to try to think a little more creatively about how we can generate some way of giving a quantitative and qualitative sense of the significance of the data and how it is used.

could we try to brainstorm for a few minutes on friday about how to approach some additions that would be helpful to her??

thanks,

RECORD TYPE: PRESIDENTIAL (NOTES MAIL)

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

CREATION DATE/TIME:12-JUL-1999 15:12:43.00

SUBJECT: Re: Meeting re ERP

TO: John G. Fernald (CN=John G. Fernald/OU=CEA/O=EOP@EOP [CEA])
READ:UNKNOWN

TEXT:
Next week is fine for discussing the ERP.

RECORD TYPE: PRESIDENTIAL (NOTES MAIL)

CREATOR: John G. Fernald (CN=John G. Fernald/OU=CEA/O=EOP [CEA])

CREATION DATE/TIME:12-JUL-1999 15:05:04.00

SUBJECT: Meeting re ERP

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

TEXT:
Janet:

Last week you mentioned that we should have a meeting to discuss nascent ideas for the ERP. I would prefer to have the meeting next week rather than this week, since I am out of town at the NBER summer institute (and am currently finishing my presentation) after Thursday. I am, in any case, writing down thoughts as they strike me.

Thanks,

John

RECORD TYPE: PRESIDENTIAL (NOTES MAIL)

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

CREATION DATE/TIME:13-JUL-1999 15:58:48.00

SUBJECT: Auerbach paper for AEI this Friday

TO: Lawrence V. Hopkins (CN=Lawrence V. Hopkins/OU=ONDCP/O=EOP@EOP [ONDCP])
READ:UNKNOWN

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

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

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

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

TEXT:
Hi everyone,

If you'd like to see it, here is Alan Auerbach's current paper on budget forecasting. (I took a quick glance at it and found that it was a little less critical than I thought his earlier works had been.)

-Ryan

---------------------- Forwarded by Ryan D. Edwards/CEA/EOP on 07/13/99 03:57 PM ---------------------------

Rebecca Lane <rlane@aei.org>
07/13/99 03:52:16 PM
Record Type: Record

To: Ryan D. Edwards/CEA/EOP
cc:
Subject: Auerbach paper

- NTJ Draft1.doc

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

TEXT:
Unable to convert ARMS_EXT:[ATTACH.D27]ARMS20503769C.136 to ASCII,
The following is a HEX DUMP:

Draft: Not for Quotation
Comments Welcome

On the Performance and Use of Government Revenue Forecasts

Alan J. Auerbach
University of California, Berkeley and NBER

October 16, 2014

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Introduction

Over the years, a key issue in the design of fiscal policy rules has been the accuracy of government budget forecasts, particularly those of tax revenues. During the early years of the Reagan administration, "supply-side" forecasts of budget surpluses gave way to the reality of large deficits that persisted into the 1990s, despite several policy changes aimed at deficit reduction (Auerbach 1994). The persistence of overly optimistic forecasts led to the perception that, as budget forecasts came to occupy a more central role in the policy process, the pressure on forecasters to help policy makers avoid hard choices led to forecasting bias. However, the experience of recent years suggests that prior conclusions may need to be amended.

The remarkable U.S. economic expansion of the 1990s has also been a challenging period for government revenue forecasters, but with different consequences than before. Continual surprises as to the overall strength of the U.S. economy and the share of income going to those in the top income tax brackets have led to a series of what turned out to be overly pessimistic aggregate revenue forecasts. Large predicted deficits gave way to smaller predicted deficits and, ultimately, the realization of budget surpluses and the forecast of larger surpluses to come. These large revisions have had a significant impact on the budget process of a government that has lashed itself to the mast of revenue forecasts to help it withstand the political sirens in its path. Even without such budget rules, though, revenue forecasts would remain an important input to the design of fiscal policy, for they provide a sense of what fiscal actions are sustainable over the longer term.

Some critics of the recent government revenue forecasts have suggested a bias, albeit in the direction opposite to that argued to exist in the earlier period. They point to the size of forecast errors and the consistent sign of these errors in arguing that the forecasters should have been able to do better. But over short periods, any sequence of individual forecast errors can be given a rational justification, and virtually any statistical error pattern is consistent with an efficient forecasting process that uses all available information in forming its predictions. One needs more data to get a better sense of whether the recent forecasts really are consistent with forecast efficiency, or whether they simply illustrate the continuation of a process of biased forecasting, with perhaps a change in bias.

In this paper, I begin by considering the issue of forecast bias and efficiency. To do so, I augment the recent data in three ways. First, I consider forecasts over a longer period. Second, I compare these government revenue forecasts to contemporaneous private forecasts. Finally, I distinguish forecasting errors according to their source, to get a better idea of the extent to which what are called "errors" are attributable to institutional forecasting conventions. After performing this data analysis, I go on to consider its implications for the forecasting process, and the use to which revenue forecasts should be put.

The results of analyzing the data are mixed. On the one hand, the performance of government forecasters – the Congressional Budget Office (CBO) and the Office of Management and Budget (OMB) – has not differed significantly from that of the private forecaster, Data Resources, Inc., (DRI). Further, over the full period considered, there is no evidence that either OMB or CBO has been overly pessimistic in its revenue forecasts. The recent string of overly pessimistic forecasts is balanced by an even more impressive string of overly optimistic forecasts in the years immediately preceding the current expansion. Even when the "pessimistic" and "optimistic" periods are considered separately, forecast errors have such large standard errors that it is difficult to conclude that the forecasts exhibit any underlying bias.

On the other hand, I also find that the government forecasts fail various statistical tests of efficiency; in principle, the process could be improved. In particular, the forecast revisions exhibit significant serial correlation and, perhaps more puzzling, the patterns of bias in revisions exhibit strong seasonality.

These results suggest that government revenue forecasts could convey more information than they do at present. But without understanding the reasons for existing forecast inefficiency, it is not clear how to accomplish this objective. Further, the large standard errors associated with the forecasts remind us of the care needed in the use of point estimates for policy purposes. Because the budget process ignores the uncertainty inherent in individual forecasts, the "best" forecasts for budget purposes need not be the most accurate point estimates; it might well be appropriate, for example, for these forecasts to reflect a pessimistic bias. In short, the requirements of forecast efficiency and those of a poorly conceived budget process are inconsistent. Perhaps both needs would be best served simultaneously through a separation of forecasting into "official" and "unofficial" functions, although it is unclear how such functions can be kept distinct.

Data and Methodology

Twice each year (and, on occasion, more frequently), CBO and OMB produce revenue forecasts for the current and several upcoming fiscal years. One forecast typically occurs around the beginning of February with the presentation of the *Federal Budget* by OMB and the roughly coincident *Economic and Budget Outlook* published by CBO. The second typically occurs in August or September, with OMB's *Midsession Review* and CBO's *Economic and Budget*

Outlook: An Update. For most of the sample period, both winter and summer forecasts have been for six fiscal years, including the one ending September 30 of the same year.[1]

In revising its revenue forecasts for a particular year, each government agency incorporates changes in its own economic forecasts as well as estimates of the effects of policy changes. For a number of years, both CBO and OMB have followed the practice of dividing each forecast revision into three mutually exclusive categories: *policy, economic,* and *technical. Policy* revisions are those attributed to changes from "baseline" policy. *Economic* revisions are changes attributed to macroeconomic events. *Technical* revisions are residual, containing changes that the agency attributes neither to policy nor to macroeconomic changes. For example, a technical revision in revenue would result from a change in the rate of tax evasion, a shift in the composition of capital income from dividends to capital gains, or a change in the distribution of income.

We may express this revision process as:

$$x_{i,t} - x_{i+1,t-1} = p_{i,t} + e_{i,t} + r_{i,t} \tag{1}$$

where $x_{i,t}$ is the i-step-ahead forecast at date t and $p_{i,t}$, $e_{i,t}$, and $r_{i,t}$ are the policy, economic, and technical components of the revision in this forecast from period t-1. For CBO, these semiannual data on revisions are available continuously from 1984 through the present. While OMB does not publish comparable forecasts, it has produced them internally for revenues over roughly the same period, for the same forecast horizons as are considered by CBO. For the two agencies together, comparable semiannual data are continuously available for revisions during

[1] Recently, CBO has begun to report forecasts over an eleven-year horizon.

the period from the summer of 1985 to the winter of 1999.[2] Initially, I analyze the sample that beings one forecasting period later, with the revision between forecasts made in the summer of 1985 and the winter of 1986, for this is the first period for which I have been able to obtain comparable DRI forecasts.[3] For the corresponding DRI forecasts, though, only the aggregate revisions, $x_{i,t} - x_{i+1,t-1}$, are available.

Because there are two forecasts made each year for revenues in each of six fiscal years, there are twelve forecast horizons and twelve corresponding revisions for the revenues of each fiscal year being predicted. The last such revision, however, differs from the others, in that it reflects changes over the very brief period between the late summer forecast during the fiscal year itself and the September 30 end of that fiscal year.[4] Thus, for the statistical analysis below, I consider only the first eleven forecast revisions for each fiscal year, labeling these revisions 1 (shortest horizon, from winter to summer during the fiscal year itself) through 11 (longest horizon, five years earlier). Odd-numbered revisions are those occurring between winter and summer; even-numbered revisions are those occurring between summer and winter. I refer to the final revision, occurring between the final forecast and the end of the fiscal year, as revision 0.

Figure 1 illustrates the timing of revisions made by OMB during the last full fiscal year in the sample, 1998, showing the correspondence between revision horizons and fiscal years. For

[2] Actually, OMB and CBO data on overall revisions $x_{i,t} - x_{i+1,t-1}$ – but not their breakdown by source – may be constructed for a longer period from successive revenue forecasts, $x_{i,t}$. For an analysis of revisions during this earlier period, see Plesko (1988).

[3] DRI makes forecasts at 3-year horizons monthly, but publishes long-range (10-year) forecasts only twice a year – currently in May and November, but with some timing changes over the years. For purposes of comparison with the forecasts of CBO and OMB, I align the May and November forecasts with the CBO and OMB forecasts immediately following.

[4] Indeed, CBO does not provide a breakdown of this last forecast revision into components.

example, the revision at horizon 5 included in the 1998 *Midsession Review* was the change in forecast revenue for fiscal year 2000 from that given one period earlier, in winter 1998.

Revision Patterns

Table 1 presents basic means for OMB, CBO and DRI forecast revisions, for the period 1986-99. To ensure that revisions from different years comparable, each revision is scaled by a projected value of the revenue being forecast, based on an exponential time trend, and expressed as a percentage of trend revenue (i.e., multiplied by 100). The mean cumulative revision equals the sum of the means at each horizon; it represents an estimate of the cumulative revision (as a percentage of trend revenues) during the period from initial to final published forecast for a particular fiscal year's revenue.[5]

A basic implication of the theory of optimal forecast behavior is that forecasts should have no systematic bias, at least if the perceived costs of forecast errors are symmetric. Over a long enough period, then, the mean forecast errors should not differ significantly from zero. Looking at the means in Table 1, then, the most notable aspect of these individual and cumulative averages is that they are reasonably close to zero; they *do not* reveal the huge upward revisions of recent years. Indeed, the OMB and DRI averages indicate net downward revenue revisions, the CBO net is only slightly positive, and all three sets of cumulative revisions average less than 1.5 percent of revenue in absolute value over the six-year revision period – hardly an enormous error.

[5] Note that this is not equal to the average cumulative error during the period for fiscal years for which complete forecast data are available, for it also incorporates the long-horizon revisions for future fiscal years and short-horizon revisions for fiscal years early in the sample.

However, if one breaks the sample down into periods of roughly equal length defined by the election of Bill Clinton in 1992[6], as is done in Table 2, it is evident that the aggregate results mask very different experience during the two distinct periods. All three organizations have revised their forecasts sharply upward during this period, with CBO's revisions being greatest and OMB's smallest.

This sharp break in forecast patterns coincident with a change in the political landscape is suggestive. Persistent errors in one direction could be produced by a bias in favor of initial overstatement or understatement of expected revenues. Hence, the observed pattern is consistent with a shift in bias from one favoring overstatement (and hence eventually having to revise revenue forecasts downward) to a bias toward understatement (and eventually having to revise revenue forecasts upward). Indeed, this is a plausible scenario, given the change in climate in 1993, as exemplified by the enactment of a large tax increase. However, any explanation based on government agency bias must confront the fact that the same general pattern of revisions is observed in the forecasts of a private business that, presumably, is not directly influenced by the political incentives and pressures that may color the forecasts of those in government.

Even if is not the result of any direct bias, DRI's relative performance does not, in itself, rule out the possibility of government agency bias. A bias could spread indirectly if private forecasters had little independent information and there were strong enough incentives not to deviate too much from "consensus" estimates. Such behavior could be justified more formally using models in which a principal must set an agent's compensation and cannot fully distinguish among different causes of errors. Considering relative performance helps distinguish between

[6] This procedure includes the winter, 1993 revision, which spans the presidential transition, in the pre-Clinton period. It is not clear how this revision should be treated, if one wishes to distinguish behavior in the two periods. However, leaving this observation period out or including it in the Clinton period does not have an important impact on the results presented.

errors caused by common shocks and those caused by the agent's own limitations (e.g., Holmstr□m 1982), but it may, in turn, lead to an incentive to follow the behavior of others (Scharfstein and Stein, 1990; Zweibel 1995). The impact of this incentive has been considered (and some of its cross-section implications rejected, notably that forecasters would tend to mimic the predictions of forecasters deemed most competent) in a related context by Ehrbeck and Waldmann (1996), who modeled the behavior of professional forecasters predicting Treasury bill rates.

Indeed, the DRI forecast revisions are strongly correlated with those of CBO and OMB. While the CBO and OMB revisions have a correlation coefficient of .63, the correlations between DRI and the two agencies are .54 (CBO) and .39 (OMB), values made all the more remarkable by the fact that the timing of the DRI forecasts differs from those of OMB and CBO. However, with so little data and so few forecasters, it is not really possible to tell whether this strength of correlation reflects excessive reliance on government projections, or simply the lack of independent information. After all, it is not clear how important it is for a private forecaster to obtain information and make accurate forecasts about government revenues. While clients may see a direct financial gain from having superior information about the movement of interest rates, there is no organized market directly tied to the level of government revenues.

Yet another possible explanation for the observed pattern of government forecast revisions is that the aggregate forecasts considered thus far do not really represent statistical predictions of future revenues, but rather "baseline" projections that incorporate assumptions about future policy that are inconsistent with optimal forecasting procedures. By practice, baseline forecasts of policy are in some cases determined by certain mechanical rules that do not reflect expectations regarding future policy. As a consequence, many of the revisions attributed to policy changes do not represent "surprises," but simply the application of these rules. Therefore, if one wishes to determine the extent to which forecasts reflect the unbiased and efficient use of available information, it is useful to exclude policy revisions from the analysis.

One might further divide the remaining revisions into their "economic" and "technical" components, making it possible, potentially, to determine the extent to which forecasting errors arise from underlying macroeconomic forecasts, as opposed to other factors. However, the distinction between these two components is somewhat arbitrary. Some initial analysis suggests that the components do not represent "independent" sources of error, and that OMB and CBO use different methodologies to divide forecast revisions into these two categories.[7] Thus, I focus only on these two components together for each agency, represented by the sum $e_{i,t} + r_{i,t}$ in expression (1). For compactness of notation, I refer to this sum as $y_{i,t}$. Unfortunately, the same exercise cannot be conducted for the DRI forecasts, revisions of which are not broken down by category.

Table 3 repeats the calculations of Tables 1 and 2 for CBO and OMB, excluding revisions attributed to policy changes.[8] In its first three sets of columns, the table presents estimates for the full sample period, the pre-Clinton (1986-93) period, and the Clinton (1993-99) period. Looking first at the cumulative means, we note that they are lower for both agencies for the full sample, meaning that policy revisions over the period as a whole are estimated to have

[7] Particularly for OMB, the technical and economic revisions are not independent. At all but the longest horizon, the OMB technical and economic forecast revisions are negatively correlated. Also, while technical and economic revisions are both highly correlated at contemporaneous horizons across agencies (with coefficients of .73 and .64, respectively), the combined sums of economic and technical revisions are even more highly correlated (.77). By contrast, the policy revisions have a correlation coefficient of only .22, suggesting stronger differences in procedures.

[8] The table also excludes revisions at horizon 0, which are available only for OMB and typically smaller in magnitude than those made over full revision periods.

increased revenues.[9] This is also true for the pre-Clinton period, but only true for CBO during the Clinton period, suggesting a divergence between OMB and CBO in the conventions used for determining baseline policy. The cumulative forecast revisions for both OMB and CBO are negative over the entire period, in contrast to the recent experience.

An interesting question that arises is whether these average forecast errors, in particular the cumulative errors, are significant. That is, could these large (in absolute value) average forecast errors from the two separate sample periods reasonably have come from an unbiased forecasting process? As calculation of the standard errors of these cumulative forecasts requires that we take account the correlation of forecasts across time and, at each date, across horizons, we return to it after such correlations have been estimated and considered.

Aside from the strong break between the two periods evident in Table 3, we note one other anomaly of the forecasts. The revisions at odd horizons are generally of higher mean than the revisions at even horizons. This pattern is remarkable, in that it holds for both agencies in both subsamples, for which the overall means are quite different. In terms of timing, this suggests that there is a tendency to be more optimistic in the summer than in the winter. There may be differences in the institutional procedures for preparing the documents at the different times of the year, but there is not any obvious reason for more bias toward pessimism in the winter, at the time of initial budget presentation. Indeed, one might have expected the opposite result, that the pressure toward optimism would be stronger for those initial forecasts given more attention and hence carrying greater political weight.

Some further insight into this pattern comes from breaking the pre-Clinton period down even further. The first part of this period, ending with the summer, 1990 revision, corresponds

[9] I return below to the issue of whether these estimates of policy impacts, themselves, may be systematically biased.

roughly the era under which the Gramm-Rudman-Hollings (GRH) budget rules were in force – an era that ended with fall, 1990 "budget summit." The GRH legislation, first passed in 1985 and later amended, set a deficit target trajectory and required that each year's budget, as submitted by the president, conform to that year's GRH target. Subsequently, during the actual fiscal year itself, based on the estimate contained in the *Midsession Review*, GRH could trigger a sequestration process of automatic budget cuts to meet the budget target. In terms of our notation, these two aspects of GRH would lead to greater pressure for optimistic forecasts at horizon 4 (to satisfy the GRH requirement with the initial budget presentation) and horizon 1 (to avoid sequestration with the current fiscal year's *Midsession Review*). It is less clear what this implies for the forecast *revisions*, except perhaps that the revisions at horizon 4 should have been relatively more optimistic.

The last two columns of Table 3 present mean economic and technical revisions for the GRH period for both OMB and CBO. The revision pattern *was* different for OMB during the GRH period. In fact, the shift in seasonal pattern is observable not just around horizon 4, but at all other horizons as well, with the even horizons now exhibiting more "optimism;" perhaps the greater optimism of budget-year forecasts spilled over into the other forecasts being made simultaneously. For such a short sample period, though, it is difficult to know whether this shift was attributable to GRH or to something else. After all, mean revisions during the GRH period were also much less negative than those from the remainder of the pre-Clinton era, which covered the 1990-91 recession and the period of relatively slow growth that immediately followed. Indeed, the onset of that recession contributed to the demise of GRH, as deficit targets became unachievable. But it is interesting that this seasonal shift is not present in the parallel forecast revisions of CBO, which was not directly affected by the GRH legislation.

Forecast Evaluation

Using the individual revisions underlying the means in Table 3, one can construct formal tests of forecast efficiency. Consider the relationship between successive forecast revisions for the same fiscal year, $y_{i,t}$ and $y_{i+1,t-1}$. According to theory, if each forecast is unbiased and uses all information available at the time, these revisions should have a zero mean and should be uncorrelated. Letting a_i be the mean forecast revision for horizon i, we relate these successive forecasts by the equation:

(2) $$y_{i,t} - a_i = \rho_i\,(y_{i+1,t-1} - a_{i+1}) + \varepsilon_{i,t}$$

or

(3) $$y_{i,t} = \rho_i\, y_{i+1,t-1} + \alpha_i + \varepsilon_{i,t}$$

where $\alpha_i = a_i - \rho_i\, a_{i+1}$ and $\varepsilon_{i,t}$ has zero mean and is serially independent.[10] The hypothesis of forecast efficiency implies that $\alpha_i = 0$ (no bias) and $\rho_i = 0$ (no serial correlation).

The mean values, a_i, in expression (2) have already been presented, in Table 3. Table 4 presents estimates[11] of the coefficients ρ_i for OMB and CBO[12]. The table presents estimates based on two alternative assumptions regarding the sample period. The first is that values of a_i and α_i are constant throughout the period, the second that the means differ between the pre-Clinton and Clinton periods. The table also lists standard errors for each coefficient, ρ_i. At the

[10] For revisions at horizon 11, there is no lagged revision, so expressions (2) and (3) become $y_{11,t} = a_{11}+\varepsilon_{11,t} = \alpha_{11}+\varepsilon_{11,t}$.

[11] The estimation is based on the full sample, using lagged values from the summer, 1995 revision.

[12] Formally, these coefficients are correlation coefficients only if the variances of forecasts at successive horizons are the same. However, sample variances typically do not vary much across horizons.

bottom of each column of estimates are p-values corresponding to F-tests of three joint hypotheses related to forecast efficiency.[13] The first is that all means are zero for the agency in question ($\alpha_i \equiv 0$); the second, for the case in which separate subsample means are allowed thorough the use of dummy variables δ_i, is that the differences in means across subsamples are zero ($\delta_i \equiv 0$). The third is that all correlation coefficients are zero ($\rho_i \equiv 0$). Of the first two sets of tests, only the test of different means for CBO fails to be rejected at the .05 level of significance.

The coefficients in the first panel of the table, based on common means, show substantial serial correlation for both agencies. The finding of serial correlation in revenue forecasts is not a new one. For example, Campbell and Ghysels (1995) report some evidence of serial correlation in aggregate annual OMB forecasts. As discussed above, one might have expected some of this serial correlation to be due to the presence of the policy component in each forecast. However, it turns out that eliminating the policy components of the successive revisions actually strengthens the results, typically increasing the estimated serial correlation coefficients.

All serial correlation coefficients based on the common means are positive, and the hypothesis that all are zero is strongly rejected. This suggests a partial adjustment mechanism, with not all new information immediately incorporated into forecasts. One can readily imagine institutional reasons for such inertia. For example, it might be perceived as costly to change a forecast and then rescind the change, leading to a tendency to be cautious in the incorporation of new information in forecasts. However, the serial correlations patterns differ between the two agencies.

[13] These tests are based on the estimated variance-covariance matrix of each agency's contemporaneous revisions for different horizons, and so reflect the strong correlation among these revisions.

While the CBO coefficients in Table 4 have a fairly smooth pattern over different horizons, the OMB correlations exhibit a strong seasonal variation. Even-numbered revisions – those made in the winter – are strongly dependent on those made the previous summer. Odd-numbered revisions – those made in the summer – are relatively independent of those made the previous winter. As with the seasonality exhibited by the means for both agencies in Table 3, it is difficult to understand this pattern. Recall that we are looking at forecast revisions, not the forecasts themselves. Thus, this strong serial dependence cannot be explained, for example, by a lack of new information in winter forecasts. This would cause the winter *forecasts* to be strongly correlated with those of the previous summer, but it would suggest that the winter *revisions* should typically be small in magnitude, rather than strongly correlated with previous revisions.

Given the fact that the full sample includes two very different subsamples, one might infer that these estimates of high serial correlation simply reflect a regime shift, i.e., a long period negative revisions followed by a long period of positive revisions. This is true to some extent, as allowing separate means for the two sample periods (as shown in the second and third panels of Table 3) does reduce the estimated serial correlation coefficients for CBO. A joint test that the CBO serial correlation coefficients are zero cannot now be rejected at any standard level of significance. However, the change in the OMB coefficients is less consistent. Indeed, there is even greater evidence of seasonality in this second panel of the table, and the joint test that the OMB correlation coefficients are zero is still strongly rejected.[14] As just discussed, a distinct question is how much new information is incorporated into the forecasts at different horizons. Table 5 provides an answer. For each forecast horizon, it lists the standard error of estimate,

[14] On the other hand, if serial correlation follows a first-order process, there is now essentially no serial correlation at the *annual* frequency for the OMB estimates, as represented by the product of successive serial correlation coefficients.

equal to the standard deviation of that part of the revision not explained by expression (3).[15] It is a measure of how much new information is incorporated at each horizon, as represented by the magnitude of the unpredictable component of a typical revision. Depending on the agency and estimation procedure, the table does provide some evidence that even-numbered revisions add less information, in that the residual variance is smaller at these horizons. This makes sense, as perhaps the single largest source of new information for revenue forecasts, the annual filing of tax returns, occurs in April, during the odd revision period. However, the differences at odd and even horizons are not great. Even for OMB, the even-numbered revisions appear to incorporate substantial new information.

One last question that the estimates in Table 4 can be used to answer is that raised earlier, whether the cumulative mean forecast errors in Table 3 are significantly different from zero. Using expressions (2) and (3), we can recover estimates of the individual means a_i and their associated covariance matrix, from which we can construct a t-test that the sum of the individual means is zero.

The results of these tests are given at the bottom of Table 3. One cannot reject the hypothesis of a zero mean for either agency for the sample as a whole. However, perhaps more surprising is that only one of the four subsample means – for CBO projections during the pre-Clinton period – differs significantly from zero at the .05 level. In particular, we cannot reject the hypothesis that the huge, persistent forecast errors since 1993 come from a distribution with zero mean. The explanation is straightforward. Although we apparently have a lot of data for this period (66 separate forecast revisions for each agency), the contemporaneous revision at different horizons are highly correlated and, as we saw in Table 4, so are the revisions reported at

[15] In constructing these standard errors, I divide the sum of squared residuals by the number of observations, rather than by the number of degrees of freedom, as the observations at odd and even horizons differ in sample size.

different dates. Thus, our effective sample size is substantially smaller – a single large forecasting error will influence several of our observations. In fact, the p-values in Table 3 may overstate significance levels, if the underlying forecast revisions are not drawn from a normal distribution. A test for normality of forecast errors (a joint test for skewness and kurtosis) is accepted for OMB, but not for CBO.

We thus have two separate sets of conclusions. First, CBO and OMB are not producing optimal forecasts. Second, the forecasts that they are producing are subject to so much uncertainty that even very large and persistent errors do not offer conclusive evidence of any underlying bias.

The Potential Impact of Taxpayer Behavior

Another implication of forecast efficiency is that forecast revisions should not depend on information available to the forecasters at the time that the initial forecast was made. Failing to take account of such information is one potential source of bias and serial correlation, depending on the nature of the information being ignored. When one considers the behavioral impact of tax changes, "ignoring" information would amount to incorporating systematically incorrect forecasts of taxpayer response; for example, forecasts might systematically understate the strength of taxpayer reaction.

The logic is simple. If revenue estimates overstate the impact of tax increases then, during the period after which taxes increase, there will be subsequent downward revisions in estimated revenue, as estimators realize that they initially had overestimated the impact of the policy change.[16] If this realization occurs over time, it would impart serial correlation to the

[16] Systematic errors of this sort would not occur simply as a result of the convention of excluding macroeconomic feedback effects from estimates of the impact of policy changes. While such feedback effects are not attributed to

revisions. If the tax changes being evaluated tend to be in one direction or another during the sample period, this could also impart a bias to the forecast revisions, causing excessive optimism in a period of tax increases and excessive pessimism in a period of tax reductions.

One approach to testing this hypothesis involves regressing the combined economic and technical revisions on lagged policy revisions (thus far excluded from the statistical analysis) for the same fiscal year, a procedure introduced in Auerbach (1994, 1995). However, estimation using the OMB and CBO data, for a variety of lagged policy revisions, in no cases led to a significant effect, and in most cases led to insignificant effects of the wrong sign (a positive coefficient).

These findings stand in contrast to those reported in Auerbach (1995), where I found significant effects in an examination of short-horizon OMB revenue forecasts. However, there are at least four differences between the two data sets that can help explain the difference in findings. First, the prior study did not include observations from recent years, during which the large tax increases of 1993 were followed by stronger than predicted revenue growth. Second, the earlier paper considered just technical forecast errors, which I argued there should show more evidence of behavioral response, for they represent precisely the errors that cannot be explained by macroeconomic phenomena. Third, that study found significant effects only for certain disaggregate revenue categories (corporate tax revenues and excise tax revenues), not for the aggregate revenue category being considered here. Finally, as emphasized above, the policy revisions to forecasts do not necessarily measure true changes in policy, but simply changes in the "baseline," which need not reflect actual current policy. My earlier paper made use of an

individual policies, they are, in principle, incorporated in subsequent macroeconomic forecasts. Thus, if feedback effects were estimated correctly, there would be no need for subsequent forecast revisions.

alternative series that better measured the policy effects of legislative changes, but such a series is available only for OMB, and only at annual frequencies.

Thus, the current findings do not contradict my earlier ones; we simply lack the data necessary to address the question of taxpayer response in the current context. More generally, these findings in no way rule out the possibility that there could be other types of information available to forecasters at CBO and OMB that are not incorporated in the forecast revisions studied here.

Implications for Forecasting and Policy

It requires a certain boldness to draw strong implications from the empirical results presented above. We don't really know why the revisions of government forecasts exhibit serial correlation and seasonality, and hence we can't predict whether this pattern will continue. We can't rule out the possibility that the seemingly huge and persistent forecast revisions of recent years occurred by chance. But we can safely conclude that the information conveyed by these forecasts and the process by which they are produced is not adequately summarized by the point estimates delivered twice a year to policy makers.

Budget rules currently in effect, and those of earlier periods, don't account for the fact that revisions are persistent. Nor do they make any allowance for the very large standard errors surrounding each forecast, and the fact that a rational policy response to uncertainty might include some fiscal precaution, much as a household would engage in precautionary saving when facing an uncertain future. For example, even if a zero deficit were an optimal target (and there are good reasons why it probably is not), it might be optimal to structure revenues and expenditures so that an unbiased forecast would predict a surplus. Therefore, in reaction to the fact that budget rules are based only on point estimates of revenue, it might be optimal to build a downward bias into these point estimates. This illustrates the difficulty of producing forecasts intended simultaneously to provide information and to act as inputs to the budget process.

To this state of affairs, one might suggest a number of responses.

First, take whatever measures may be available to improve current forecasting methods. This recommendation undoubtedly falls into the category of "easier said than done," but there must be some explanation for the anomalous pattern of forecast revisions discussed above. Perhaps the explanation lies in the use of mechanical rules, even for the economic and technical components of forecasts, in accordance with certain requirements of the budget process. Alternatively, the pattern may reflect the various incentives present when budget forecasts play such a central role in the policy process. If either of these explanations applies, then the problem may also be addressed by the some of the remaining suggestions.

Second, as it is probably unrealistic (and perhaps also unwise) to consider incorporating greater sophistication into budget rules, reduce the mechanical reliance of policy on such rules. As a vast literature elucidates, there are trade-offs of costs and benefits in adopting rules. As to the benefits, many believe that the rules provide credibility to fiscal discipline that would be lacking otherwise. This may or may not be so. But rules also impose costs, by restricting the flexibility of policy responses. While such restriction is inevitable when rules are imposed, being bound by budget rules that so fully ignore available information seems to present very significant costs as well.

Third, don't ask even more of the forecasting process than we presently do, at least until the previous two recommendations are accepted. In particular, don't require "dynamic scoring" for official purposes, or other projections likely to be based on limited information. In brief, dynamic scoring involves incorporating macroeconomic feedback into each individual revenue estimate, as opposed to the current practice simply of updating the baseline over time to take all changes, including those induced by legislation, into account.[17] In principle, dynamic scoring is a good idea, for it permits the legislative process to be based on all available information. But it would require the use of more speculative forecasting procedures, to the extent that reasonable forecasts easily might differ not only in magnitude but also in the sign of estimated policy feedback effects. Attempting to carry out dynamic scoring in an environment in which forecasts already have statistical difficulties, are produced under political pressure, and are relied on without sufficient caution seems ill-advised, a point that has been recognized for some time. For example, Penner (1982) advocates the use of very mechanical rules for constructing official forecasts, not because they produce the most accurate forecasts, but because there will be little disagreement about how the forecasts should be constructed, and hence little bias in the process. The Appendix below presents a simple model that formalizes this trade-off, confirming that the use of more ambitious, and less easily monitored forecasting methods should hinge on how uncertain these methods are and how much additional information they have the potential to impart.

Finally, if one is realistic about what is feasible, the ideal evolution of the government forecasting process may be the further development of a parallel, and more ambitious, "unofficial" forecasting approach. An illustration is the long-term budget forecasts produced in recent years by CBO (1997), incorporating macroeconomic feedback, long-term projections and, to some extent, uncertainty. These forecasts have arisen because they serve an important purpose, helping us to understand the long-run fiscal effects of factors such as population aging and the growth of medical expenditures. But they are even less suited than short-run forecasts to

[17] Auerbach (1996) discusses dynamic scoring and the associated issues in more detail.

a budget process that ignores uncertainty and, inevitably, applies political pressure. If they can remain unhindered by the constraints of budget rules of the type presently in effect, the development of such forecasts actually might provide information of use to thoughtful policy design.

As an alternative, perhaps it is time to apply to fiscal policy what we have learned about the benefits of an independent monetary authority, and provide some additional autonomy and protection to those in government charged with providing the budget forecasts.

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Appendix

This appendix presents a simple, static model that may be used to illustrate the trade-off that may exist in asking more from the forecasting process, as in the case of "dynamic scoring."

Suppose that there is a basic information set, say Ω, which is commonly observed by all. On the basis of this information, the expected value of revenue, x, is, $\bar{x}_{\Omega} = E(x|\Omega)$. One can think of $\bar{x}_{\Omega}$ as the prediction of a relatively simple, commonly understood forecasting methodology. Let us also assume that the forecasting agency has access to a more comprehensive information set, say Π (of which Ω is a subset), that allows more precise forecasts. The additional information included in Π may be viewed as the greater accuracy of a more sophisticated forecasting process that is not transparent or easily verified, such as the incorporation of dynamic feedback effects. This greater accuracy means that, if the true value of x equals the prediction $\bar{x}_{\Pi} = E(x|\Pi)$ plus a zero-mean stochastic error term, ε, then there is an additional, independent, error term, ν, involved when forecasting x with the information set Ω, equal to the error in forecasting $\bar{x}_{\Pi}$. That is, $x = \bar{x}_{\Pi} + \varepsilon = \bar{x}_{\Omega} + \nu + \varepsilon$.

Imagine that the government (as distinct from the agency) wishes to ensure that the agency's estimates are as accurate as possible, as represented by minimizing the value of a loss function of its expected squared deviation, $L = E\,[(\hat{x} - x)^2|\Omega]$, of actual revenue, x, from that predicted by the agency, $\hat{x}$. Normally, we might expect this objective to lead it to ask the agency to use all its own available information, Π, in formulating $\hat{x}$. However, if the agency's forecasting process is biased, its use of this superior information will not result in a forecast equal to the expected value, $\bar{x}_{\Pi}$.

To make this point concrete, suppose that the agency desires to minimize its own loss function, $\Lambda = E\,[\gamma(\hat{x} - x - \theta)^2|\Pi]$, where θ represents the bias in its forecasting process. This would lead to a forecast of $\bar{x}_\Pi + \theta$. If θ were observable, the bias would present no problem for the government, which could then make the appropriate adjustment to the agency's biased forecast to recover $\bar{x}_\Pi$. But, as it may be difficult to know what the inherent forecasting bias is, it makes sense to treat θ as a random variable from the government's viewpoint. For simplicity, we also let the mean of θ equal 0, for, as just shown, the deterministic part of θ is unimportant.

The government faces a difficult choice in deciding whether to let the agency use its "superior" forecasting process, for this will then also open the door to the inclusion of bias. To see how different factors affect this trade-off, suppose that the government may influence the extent to which the agency bases its forecast on Ω, rather than Π, by imposing a penalty on the agency, $P = \beta(\hat{x} - \bar{x}_\Omega)^2$, determined by the deviation of the agency's forecast from that based on common information. Setting $\beta = 0$ will lead the agency to use Π to minimize its own loss function, Λ, while setting $\beta = \infty$ will cause the agency simply to report the common forecast, $\bar{x}_\Omega$. More generally, its choice of $\hat{x}$ to minimize the sum of its own loss function and the additional penalty, $\Lambda + P$, will be the weighted average, $\beta'\bar{x}_\Omega + (1-\beta')(\bar{x}_\Pi + \theta)$, where $\beta' = \beta/(\beta+\gamma)$ ranges from 0 to 1 as β ranges from 0 to ∞. It is straightforward to show that the value of the relative penalty β' that minimizes the government's expected loss function, L, is $V(\theta)/[V(\theta)+V(\nu)]$, the ratio of the variance of θ to the sum of this variance and the variance of ν.

Thus, the agency should be encouraged to use its superior information, the greater this informational advantage is (i.e., the larger $V(\nu)$ is), and the less unpredictable the influence of bias on its unobservable forecasting process (i.e., the smaller $V(\theta)$ is).

Table 1. Average Forecast Revisions, by Horizon, 1986-1999
(percent of trend revenue)

Forecast Horizon:	OMB	CBO	DRI
0	-0.03	-0.16	0.50
1	0.64	0.43	0.38
2	-0.53	-0.22	0.34
3	0.00	0.57	0.77
4	-0.09	-0.28	0.02
5	-0.09	0.52	-0.40
6	-0.19	-0.23	-0.03
7	-0.38	0.21	-0.37
8	-0.04	-0.09	-0.66
9	-0.40	0.12	-0.48
10	0.15	-0.20	-1.01
11	-0.45	0.13	-0.52
Cumulative	-1.40	0.80	-1.47

Table 2. Average Forecast Revisions, by Horizon, 1986-1999

(percent of trend revenue)

	Pre-Clinton Period (1986-93)			Clinton Period (1993-99)		
	OMB	**CBO**	**DRI**	**OMB**	**CBO**	**DRI**
Forecast Horizon:						
0	-0.29	-0.46	0.07	0.31	0.24	1.08
1	-0.38	-0.57	-0.33	1.83	1.60	1.19
2	-1.37	-1.05	-0.80	0.60	0.89	1.86
3	-0.84	-0.60	-0.15	0.99	1.93	1.83
4	-0.95	-1.23	-0.53	1.06	0.99	0.75
5	-0.94	-0.60	-1.90	0.90	1.84	1.35
6	-0.85	-1.18	-0.17	0.67	1.05	0.14
7	-1.02	-0.77	-1.72	0.36	1.36	1.20
8	-0.59	-1.06	-1.20	0.69	1.22	0.06
9	-0.87	-0.81	-1.87	0.16	1.21	1.15
10	-0.20	-1.22	-1.74	0.62	1.16	-0.03
11	-0.94	-0.90	-1.85	0.13	1.33	1.04
Cumulative	**-9.23**	**-10.48**	**-12.17**	**8.32**	**14.81**	**11.61**

Table 3. Average Economic + Technical Forecast Revisions, by Horizon, 1986-1999

(percent of trend revenue)

Sample Period:	1986-99		1986-93		1993-99		GRH Period 1986-90	
	OMB	**CBO**	**OMB**	**CBO**	**OMB**	**CBO**	**OMB**	**CBO**
Forecast Horizon:								
1	0.63	0.52	-0.35	-0.40	1.78	1.59	-0.06	0.09
2	-0.63	-0.61	-1.61	-1.71	0.66	0.87	-0.32	-0.75
3	0.13	0.41	-0.84	-0.65	1.25	1.65	-0.78	-0.18
4	-0.76	-0.65	-1.97	-1.87	0.85	0.99	-0.36	-0.93
5	0.01	0.25	-1.00	-0.70	1.19	1.36	-0.93	-0.23
6	-0.82	-0.50	-1.81	-1.68	0.50	1.06	-0.18	-0.98
7	-0.15	-0.02	-1.10	-0.88	0.96	0.98	-0.81	-0.47
8	-0.74	-0.43	-1.60	-1.67	0.41	1.22	-0.10	-1.07
9	-0.08	-0.13	-0.97	-0.92	0.96	0.79	-0.42	-0.41
10	-0.70	-0.53	-1.48	-1.84	0.33	1.20	-0.06	-1.34
11	-0.12	-0.15	-1.04	-1.02	0.95	0.86	-0.43	-0.33
Cumulative	**-3.24**	**-1.85**	**-13.78**	**-13.34**	**9.85**	**12.57**	-4.46	-6.60
p-value (t-test) Cumulative = 0	.7582	.9126	.0883	.0131	.0895	.1019		

Table 4. Serial Correlation of Successive Economic + Technical Forecast Revisions, by Horizon, 1986-1999

Treatment of Subsamples:	Common Means				Separate Means			
	OMB		CBO		OMB		CBO	
	Coeff.	Std. Error	Coeff.	Std. Error	Coeff.	Std. Error	Coeff.	Std. Error
Forecast Horizon:								
1	0.52	0.17	0.70	0.24	0.34	0.25	0.57	0.28
2	0.81	0.21	0.56	0.14	0.69	0.23	0.34	0.16
3	0.19	0.19	0.61	0.26	0.03	0.22	0.42	0.24
4	1.28	0.21	0.67	0.16	1.30	0.27	0.37	0.21
5	0.11	0.24	0.59	0.31	-0.03	0.20	0.38	0.29
6	1.28	0.17	0.71	0.14	1.45	0.31	0.37	0.22
7	0.07	0.24	0.50	0.32	-0.01	0.19	0.31	0.31
8	1.21	0.26	0.71	0.14	1.35	0.42	0.34	0.22
9	0.08	0.19	0.39	0.32	0.05	0.15	0.19	0.32
10	1.16	0.39	0.60	0.16	1.37	0.53	0.21	0.20
p-value (F-test) $\alpha_i \equiv 0$	.0290		.0213		.0037		.0012	
p-value (F-test) $\delta_i \equiv 0$	--		--		.0009		.1165	
p-value (F-test) $\rho_i \equiv 0$	.0000		.0011		.0006		.2218	

Table 5. Standard Errors of Estimate, Economic + Technical Forecast Revisions, by Horizon, 1986-1999

Treatment of Subsamples:	Common Means		Separate Means	
	OMB	CBO	OMB	CBO
Forecast Horizon:				
1	1.80	1.65	1.64	1.62
2	1.24	1.40	1.20	1.16
3	1.87	1.88	1.59	1.79
4	1.32	1.58	1.32	1.29
5	1.67	1.68	1.25	1.59
6	1.21	1.42	1.18	1.10
7	1.58	1.50	1.18	1.41
8	1.43	1.51	1.41	1.09
9	1.57	1.54	1.22	1.44
10	1.86	1.67	1.82	1.19
11	1.62	1.87	1.25	1.59

Figure 1. Timing of Forecast Revisions During Fiscal Year 1998

Winter 1998: Fiscal Year 1999 Budget

Revison Horizon	For Fiscal Year
0	1997
2	1998
4	1999
6	2000
8	2001
10	2002

Summer 1998: Midsession Review

Revison Horizon	For Fiscal Year
1	1998
3	1999
5	2000
7	2001
9	2002
11	2003

RECORD TYPE: PRESIDENTIAL (NOTES MAIL)

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

CREATION DATE/TIME:14-JUL-1999 09:08:34.00

SUBJECT: should Soc Sec buy marketable debt?

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

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

CC: David.Wilcox@do.treas.gov (David.Wilcox@do.treas.gov [UNKNOWN])
READ:UNKNOWN

TEXT:
Janet:

I think your idea was an excellent one. Any issuance of Treasury specials will mean that the on-budget government is borrowing from Social Security, and some critics may point that out. Using all of the borrowed funds to pay down debt (which is where I think we came out yesterday) will help, but maybe not adequately. But making Social Security buy in the public market, and thus making the on-budget borrow there, seems to resolve that problem. (It also sets up Social Security for buying other assets, as you noted.)

However, I do want to note a few disadvantages of this approach for the record:

1. Financial transactions become more complicated for Social Security and maybe the Treasury. Social Security needs to get itself in the business of managing a real portfolio, like hiring investment professionals and paying trading fees (of course, equity investments would require the same). Treasury would need to do less re-purchase of outstanding debt, which might reduce transactions. At the same time, they might want to coordinate their debt purchases and sales with Social Security's, to maintain a smoother supply of Treasury securities to the public. (The analogy here is probably to the Fed, whose bond purchases--when rolling over its portfolio--are not included in the announced auction sizes.)

2. Social Security would take on some interest-rate risk and would need to think about the appropriate maturity of its portfolio. Treasury specials have floating rates and are redeemable at par; marketable Treasury debt is neither. By holding debt that matures when funds are needed, Social Security could reduce its interest-rate risk, although the valuation of the portfolio would be more volatile. By holding inflation-indexed debt, Social Security could reduce its inflation risk. But I think there would have to be greater risk on balance, although I have not thought about this carefully. (And presumably the risk of the rest of the government would be correspondingly reduced.)

3. I'm not sure whether we would want to tear up all of the existing specials, or just not issue any new ones. Tearing up the old ones might be more disruptive to financial markets and reported debt totals. I do think the "public debt" definition could still exclude Social Security (although note that it does not exclude the Fed, which is somewhat comparable).

4. Any holder of Treasury debt has indirectly loaned money to the Treasury. Thus, some might still complain that Social Security is still lending money to the on-budget government, although there is hardly an alternative.

Doug

RECORD TYPE: PRESIDENTIAL (NOTES MAIL)

CREATOR: Michael J. Brien (CN=Michael J. Brien/OU=CEA/O=EOP [CEA])

CREATION DATE/TIME:14-JUL-1999 14:53:07.00

SUBJECT: Medicare Deputies Meeting 7/13/99

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

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

TEXT:
Janet:

I want to give you a brief update on what transpired at the Medicare Deputies meeting that took place late yesterday afternoon. Please let me know if you want more details or if you would like to talk about the meeting.

The meeting was chaired by Chris Jennings. At the meeting were representatives from DPC, Treasury, OMB, and HHS.

The first topic was an overview by Chris Jennings on the curent thinking of the administration. He stated that Medicare will be a top priority for the next few weeks ('the number one issue in the White House"). They will be stressing solvency and the prescription drug proposal. The President has a press conference on 7/21 and Medicare will be a focal point. A couple days prior to the press conference they are planning on releasing some more details of the Medicare reform plans (including budget estimates, I believe). There was some discussion on who should be with the President when this release is made. DPC is pushing for Larry Summers. There are other Medicare events (no details provided) scheduled for 7/28 or 7/29, and 7/30 (the 34th anniversary of Medicare).

The second topic was a discussion of whether a bill should be drafted at this point and, if so, who should draft it (e.g. HHS or people on the hill). HHS appears to have a staffing problem at the moment and may not be able to do the legislative work. At a minimum, it was decided that the specifications of the bill should be done internally.

The third issue was the scoring of the Medicare proposals. Part of this is being done by the Chief Actuary at HHS. There was some concern about this process. OMB circulated a prospective "Sources and Uses" table shell.

Finally, a variety of other issues surrounding the Medicare reform proposals were discussed. The different groups provided brief updates on where various tasks now stood.

Mike Brien

RECORD TYPE: PRESIDENTIAL (NOTES MAIL)

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

CREATION DATE/TIME:19-JUL-1999 21:00:42.00

SUBJECT: comparisons of government debt

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

TO: alan.cohen (alan.cohen @ do.treas.gov [UNKNOWN])
READ:UNKNOWN

TO: Richard P. Emery Jr. (CN=Richard P. Emery Jr./OU=OMB/O=EOP@EOP [OMB])
READ:UNKNOWN

TO: William G. Dauster (CN=William G. Dauster/OU=OPD/O=EOP@EOP [OPD])
READ:UNKNOWN

TO: David.Wilcox (David.Wilcox @do.treas.gov [UNKNOWN])
READ:UNKNOWN

CC: douglas_w._elmendorf@cea.eop.gov (douglas_w._elmendorf@cea.eop.gov [UNKNOWN])
READ:UNKNOWN

TEXT:
I spent some time this afternoon talking to Kathryn Olson on Bingaman's staff about debt held by government accounts, gross debt, etc. In the course of the conversation, I noticed one small error in the table I distributed to you folks earlier:

I assumed that Social Security represented the entire off-budget surplus, which it does not. This $4 billion error propagated into my numbers for on-budget trust funds because of the way I did the calculations. A corrected table -- which accounts explicitly for the Post Office, as I'm sure you've all been waiting for -- is attached.

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

TEXT:
Unable to convert ARMS_EXT:[ATTACH.D11]ARMS27924610A.236 to ASCII,
The following is a HEX DUMP:

Comparisons of Government Debt
Doug Elmendorf
REVISED July 19, 1999

Based on corrected Table 22 from the Mid-Session Review ($ billions).

	Debt Held by the Public	**Debt Held by Govt. Accts.**	**Gross Debt**
Beginning of FY 2000	3653	1962	5615
Baseline			
Social Security		3063	3063
On-Budget Trust Funds[1]		1005	1005
Unified Surplus	-5935		-5935
Other Means of Finance (negative)	181		181
TOTAL Changes	-5754	4068	-1686
End of FY 2014	-2101	6030	3929
Plan			
Social Security Lockbox[2]	-3063	3063	0
Medicare Solvency Transfers	-723	723	0
Interest on Medicare Transfers		232	232
On-Budget Trust Funds Baseline		1005	1005
Other Means of Finance (negative)	181		181
Post Office Surplus[3]	-4		-4
TOTAL Changes	-3609	5023	1413
End of FY 2014	44	6984	7028
Difference of Plan From Baseline			
Medicare Solvency Transfers		723	723
Interest on Medicare Transfers		232	232
Reduced On-Budget Surplus[4]	2145		2145
TOTAL Difference	2145	955	3100

	Debt Held by the Public	Debt Held by Govt. Accts.	Gross Debt
Set Tax Cut = On-Budget Surplus			
Social Security Lockbox	-3063	3063	0
On-Budget Trust Funds Baseline		1005	1005
Other Means of Finance (negative)	181		181
Post Office Surplus	-4		-4
TOTAL Changes	-2886	4068	1182
End of FY 2014	767	6030	6797
Difference of Tax Cut From Baseline			
Reduced On-Budget Surplus	2868		2868
TOTAL Difference	2868	0	2868
Difference of Tax Cut from Plan			
Medicare Solvency Transfers		-723	-723
Interest on Medicare Transfers		-232	-232
Reduced On-Budget Surplus	723		723
TOTAL Difference[5]	723	-955	-232

Notes:

1. On-Budget Trust Funds include Medicare, Civil Service Retirement, Military Retirement, Unemployment Insurance, and others. Of the $1 trillion baseline increase, roughly $.2 trillion accrues to Medicare and the remaining $.8 trillion to other funds. For 2000, $30 billion goes to the civil service fund, 7 to the military fund, 6 to UI, 6 to Medicare, and 5 to all others (compared to $185 billion to OASDI).
2. Transfers to Social Security are used entirely to purchase equities within the 15-year window, so they have no effect on debt. I assume that the lockbox forces the Social Security surplus to be used to pay down publicly held debt.
3. The plan balances the on-budget, meaning that the off-budget Post Office surplus will be used to pay down debt held by the public.
4. The on-budget surplus is $2868 billion in the baseline and $723 billion in the plan.
5. The tax cut leaves more publicly held debt than the plan, but it leaves less gross debt because the interest paid on the Medicare transfers raises debt held by government accounts without reducing debt held by the public.

RECORD TYPE: PRESIDENTIAL (NOTES MAIL)

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

CREATION DATE/TIME:19-JUL-1999 09:51:57.00

SUBJECT: revised draft

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

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

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

TEXT:
here is revised document reflecting changes as discussed =================== ATTACHMENT 1
===================
ATT CREATION TIME/DATE: 0 00:00:00.00

TEXT:
Unable to convert ARMS_EXT:[ATTACH.D68]ARMS22326700Y.236 to ASCII,
The following is a HEX DUMP:

President Clinton's Proposal to Save Surpluses is Good Economics

The federal budget is projected to show substantial surpluses over the next 15 years. These surpluses offer an exceptional opportunity to pay down government debt and thereby strengthen Social Security and Medicare in order to prepare for the retirement of the baby boomers.

President Clinton's budget proposal makes the correct decision to save most of these surpluses. The Administration estimates that its plan would entirely pay off the publicly held debt by saving over $4 trillion in projected surpluses by 2015. This dramatic contribution to national saving would reduce interest rates, boost business investment in plant and equipment, lead to a more productive workforce, and raise the standard of living.

In contrast, a massive tax cut that encourages consumption would not be good economic policy. With the unemployment rate at its lowest point in a generation, now is the wrong time to stimulate the economy through tax cuts. Moreover, a growing tax cut might drain government resources just when the aging of the population starts to put substantial stress on Social Security and Medicare. And, given the uncertainty of such long term budget projections, committing to a large tax cut would create significant risks to the budget and the economy.

RECORD TYPE: PRESIDENTIAL (NOTES MAIL)

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

CREATION DATE/TIME:20-JUL-1999 14:15:02.00

SUBJECT: Re: OECD news and questions

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

TEXT:
I think it is important for John to make sure that Martin is actually elected EPC Chair in November. That probably involves some OECD politics, and John should stay on top of it.

John should not take a role in inviting people to the climate change meeting--that is Moe's job. However, he should know that along with Robert, the U.S. has committed to sending a senior climate change official. Joe Aldy knows about this and is in touch with Frank Loy's office at the State Department about this. However, Frank Loy himself seems unlikely to attend and we will be seriously reneging on a commitment we made to Moe if we do not get someone like David Sandalow to attend instead. Joe should stay on top of this, but it would not hurt if John pesters your successor to in turn pester Robert and Joe about this.

RECORD TYPE: PRESIDENTIAL (NOTES MAIL)

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

CREATION DATE/TIME:20-JUL-1999 09:12:53.00

SUBJECT: Re: should Soc Sec buy marketable debt?

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

TO: David.Wilcox@do.treas.gov (David.Wilcox@do.treas.gov [UNKNOWN])
READ:UNKNOWN

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

TEXT:
I sent email to Gary exploring this idea, and he flagged the same two issues that I had discussed: extra risk to Social Security, and complications in Treasury debt management.

My further ruminations on these topics are below. I have no idea whether the basic idea has legs at this point or not, so we probably don't want to invest too much effort in it. But I wanted to be a little ready in case somebody else brought it up at a meeting at some point.

---------------------- Forwarded by Douglas W. Elmendorf/CEA/EOP on 07/20/99 09:04 AM ---------------------------

(Embedded
image moved Douglas_W._Elmendorf@cea.eop.gov
to file: 07/20/99 08:59:47 AM
PIC17147.PCX)

Record Type: Record

To: Gary.Gensler@do.treas.gov

cc: Douglas W. Elmendorf/CEA/EOP
Subject: Re: should Soc Sec buy marketable debt? -Reply

Yes, I agree that those are the two main issues. I don't want to minimize

them, but I think they can both be dealt with adequately, and this approach seems preferable, on balance, to some other approaches being proposed on the Hill or in our meetings.
Regarding market risk, I think a few points can be made. First, to the extent that Social Security bears more risk, the rest of the government must bear less, so it's not a net loss. Second, if we want Social Security to buy equities, we're pushing them into the market risk business in a big way, and we shouldn't worry too much about the risk of holding bonds. Third, Social Security could buy TIPS, which would insulate them against market risk arising from inflation. Fourth, Social Security could buy bonds of maturity roughly matching their expected benefit obligations, which would reduce both the market risk and the reinvestment risk.
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- PIC17147.PCX=================== ATTACHMENT 1 ===================
ATT CREATION TIME/DATE: 0 00:00:00.00

TEXT:
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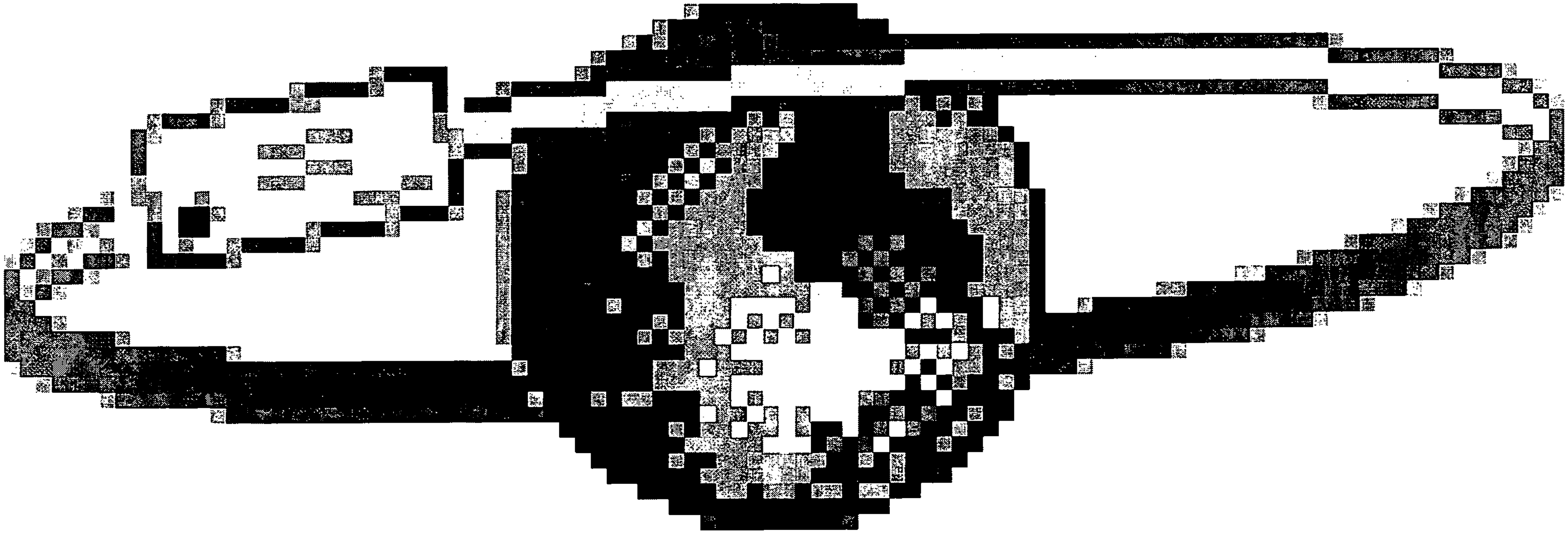

RECORD TYPE: PRESIDENTIAL (NOTES MAIL)

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

CREATION DATE/TIME:20-JUL-1999 13:41:20.00

SUBJECT: Re: OECD news and questions

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

TEXT:
Could you let John know that:

(1) I have talked with both Ignazio and Ambassador Bondurant about Martin's succeeding me as EPC Chair. I have heard no objection whatever to this strategy and have emphasized that this is important to us. Especially given that WP-3 is unlikely to be headed by an American and that it is long-standing tradition for the CEA Chair to chair EPC, it is important that Martin be appointed to the job. If Martin is either confirmed by the Senate or given a recess appointment by the President, he will hold the title of CEA Chair by the next EPC meeting in November and there should be no reason at all that Martin is not elected to the Chair at the November meeting. This would coincide with past precedent.

(2) On climate change, I attended a meeting with Thorvald Moe and others at the Ministerial and we agreed to a meeting of appropriate economics and environment "Senior Officials" just after the WP-3 meeting in September. The meeting would concern climate change issues and be an opportunity to exchange views on key substantive issues prior to the next COP meeting, but would not be a "negotiating session." We decided that it was inadvisable to have Economics and Environment Ministers attend the meeting. Instead, we should have each country designate a senior economics and environment official with significant involvement in climate change policy to attend. From the U.S., Robert Lawrence, who handles climate change at the CEA and will be at WP-3 in any event will be going and is already slated to be a lead discussant on one of the topics. We do not yet know who will attend on the environmental side.

RECORD TYPE: PRESIDENTIAL (NOTES MAIL)

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

CREATION DATE/TIME:20-JUL-1999 19:48:13.00

SUBJECT: (draft) 482 words on productivity

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

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

TEXT:
Unable to convert ARMS_EXT:[ATTACH.D33]ARMS268718203.236 to ASCII,
The following is a HEX DUMP:

At a 2 percent annual rate during the past 4 years, productivity growth in the nonfarm sector has been remarkable. The implications have already been far reaching, helping to suppress inflation, boost profits, and sustain solid gains in real wages for these 4 years after 9 years of stagnation. Whether growth at this pace can be sustained is a question of major significance.

The past 4 years of productivity growth stand in sharp contrast to the 4½ years preceding it—when productivity grew at only a 1.2 percent rate (adjusted for methodology change). Why should productivity have accelerated so much in the latter part of the 1990s? and is the recent rate of increase sustainable in the very long run?

Good fiscal policy is part of the explanation. The historic shift from deficit to surplus has increased national saving, cut interest rates, and boosted private investment. Capital per hour grew at a 1.4 percent annual rate from 1994 to 1997<update to 1998>, up from 0.8 percent per year during 1990-95.

But capital deepening only explains part of the puzzle. Weighting by the capital share (about one third), capital deepening explains only about 0.2 percentage point of the acceleration. More strikingly, this explanation begs another question. Capital services per hour have increased at a 1.3 percent annual rate thus far in the 1990 business cycle, down from a 2.4 percent rate of increase during the 1973-90 period. Although one must allow that capital deepening does not explain a pickup in productivity for this business cycle as a whole, a fundamental break occurred around in mid-decade. Fiscal policy was put on track, and several major technological developments came of age. As a result, the future may resemble the past 4 years, rather than the 1990s as a whole.

Every year brings new advances in technology, but recent years have been special. The Internet together with advances in computer hardware, software, and other information technologies have brought electronic commerce into almost every corporation and to __ percent of the homes in America. One hopes that these inventions will be of the importance of the steam engine and the electric dynamo.

At least 2 notes of caution are in order. First, productivity is a highly cyclical variable, reacting positively to rapid growth of output. Until very recently, much of the recent productivity surge could be argued to be cyclical, but the stunning growth rates in the fourth quarter of 1998 and the first quarter of 1999 were clearly outside of the range of normal errors. Second, productivity data for the past year are preliminary, and productivity revisions can be substantial. The stunning productivity advances in the recent quarters might well vanish. These cautionary notes are important because they limit the usefulness of the recent data for extrapolating trends. Should government economists boost the 75-year projection of productivity growth based on a few quarters of preliminary data?

Withdrawal/Redaction Marker
Clinton Library

DOCUMENT NO. AND TYPE	SUBJECT/TITLE	DATE	RESTRICTION
001. email	Janet L. Yellen to Audrey Choi at 14:09:00.00. Subject: Fed nominees. (2 pages)	07/20/1999	b(6)

COLLECTION:

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

FOLDER TITLE:

[06/03/1999 - 07/29/1999]

2013-0723-F
ab1298

RESTRICTION CODES

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

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

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

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- b(3) Release would violate a Federal statute [(b)(3) of the FOIA]
- b(4) Release would disclose trade secrets or confidential or financial information [(b)(4) of the FOIA]
- b(6) Release would constitute a clearly unwarranted invasion of personal privacy [(b)(6) of the FOIA]
- b(7) Release would disclose information compiled for law enforcement purposes [(b)(7) of the FOIA]
- b(8) Release would disclose information concerning the regulation of financial institutions [(b)(8) of the FOIA]
- b(9) Release would disclose geological or geophysical information concerning wells [(b)(9) of the FOIA]

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: 1999-07-20

Subject: OECD news and questions

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

RECORD TYPE: PRESIDENTIAL (NOTES MAIL)

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

CREATION DATE/TIME:20-JUL-1999 09:07:29.00

SUBJECT: Re: should Soc Sec buy marketable debt?

TO: David.Wilcox (David.Wilcox @do.treas.gov [UNKNOWN])
READ:UNKNOWN

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

CC: douglas_w._elmendorf@cea.eop.gov (douglas_w._elmendorf@cea.eop.gov [UNKNOWN])
READ:UNKNOWN

TEXT:
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---------------------- Forwarded by Douglas W. Elmendorf/CEA/EOP on 07/20/99 09:04 AM ---------------------------

Douglas_W._Elmendorf@cea.eop.gov
07/20/99 08:59:47 AM
Record Type: Record

To: Gary.Gensler@do.treas.gov
cc: Douglas W. Elmendorf/CEA/EOP
Subject: Re: should Soc Sec buy marketable debt? -Reply

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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:21-JUL-1999 09:53:18.00

SUBJECT: FWD from Ignazio

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

TEXT:
Hi Janet,

Here's a forwarded message from Ignazio on the topics under consideration. It sounds to me as though poor Mr. Suesser passed away (I think that's what Ignazio means by "passed over"), so there is only one vice-chair of EPC left.

There seems to be some confusion about WHEN the climate change meeting is (ie, before or after the WP-3), and I'll try to clear that up.

Best,

-Ryan

--------------------- Forwarded by Ryan D. Edwards/CEA/EOP on 07/21/99
09:51 AM ---------------------------

Ignazio.VISCO@oecd.org
07/21/99 04:56:14 AM
Record Type: Record

To: Ryan D. Edwards/CEA/EOP, Ignazio.VISCO@oecd.org,
Martine.DURAND@oecd.org
cc:
Subject: RE: 2 topics: EPC Chair and Climate Change

Dear Ryan,
some quick answers, as I am leaving and Martine is on leave.
1. There is now only one vice chair left. Unfortunately Mr. Susser passed over early June.
2. I would be delighted to have Martin Baily taking over as new chair of EPC. When Martin will return we will follow it up with delegations. To chair
the EPC from its November meeting, I suppose that he should hold his CEA Chair position formally (one way or the other). But we'll try to make progress on this in August/September and hope to talk about it with Martin

if I have a chance of seeing him when I come to Washington on the 24th/25th of August.
3. You are quite right on the Climate change meeting, except that it should take place one (or two?) day before WP3, and, as I understand it, Bob Lawrence will participate for the CEA.

4. Finally, all the best for your future studies and career. Let us know what you will end up doing, and thank you very much for a very fruitful collaboration.

Ignazio

-----Original Message-----
From: Ryan_D._Edwards@cea.eop.gov [mailto:Ryan_D._Edwards@cea.eop.gov]
Sent: Tuesday, July 20, 1999 8:12 PM
To: ignazio.visco@oecd.org; Martine.DURAND@oecd.org
Subject: 2 topics: EPC Chair and Climate Change

Hi Ignazio and Martine,

Janet Yellen has updated me on her discussions regarding these two issues with you. I would just like to touch base in order to make sure that you're getting the help you need in carrying out the current plans.

As I understand them, the plans are the following:

EPC Chair: We at the CEA very much want Martin Baily, the incoming CEA Chair, to take over as chair of EPC. As John Weeks has pointed out to us, there may be some ancillary issues of protocol here; for example, will a vice-chair preside over the next EPC, will that or the other vice-chair accept Martin's "leap-frogging" him to be the next chair, etc.

Climate Change: After the next WP-3, an informal, view-exchanging meeting would take place (i.e., in advance of the next COP meeting), with each country invited to send one economics official and one environmental official who deal with climate change.

Please let me know if these are accurate and if you would like additional assistance in achieving these goals.

Best,

-Ryan

PS I will be leaving the CEA in mid-August, and I will inform you of the identity of my successor in the OECD job here as soon as I know.

RECORD TYPE: PRESIDENTIAL (NOTES MAIL)

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

CREATION DATE/TIME:21-JUL-1999 17:55:11.00

SUBJECT: Caseload report, FYI

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

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

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

TEXT:
Unable to convert ARMS_EXT:[ATTACH.D12]ARMS24245830G.236 to ASCII,
The following is a HEX DUMP:

THE EFFECTS OF WELFARE POLICY AND THE ECONOMIC EXPANSION ON WELFARE CASELOADS: AN UPDATE

August 3, 1999

A Report by the Council of Economic Advisers

This study could not have been completed without the generous assistance of the Department of Health and Human Services in providing data and program information.

EXECUTIVE SUMMARY:
THE EFFECTS OF WELFARE POLICY AND THE ECONOMIC EXPANSION ON WELFARE CASELOADS: AN UPDATE

This study investigates the causes behind recent changes in welfare caseloads, updating a 1997 CEA study of caseload change.

- *The fall in welfare caseloads has been unprecedented, wide-spread, and continuous, and employment has increased.* 14.1 million people received welfare in January 1993, and this number had fallen to 7.6 million by December 1998. In 23 states the caseload is less than half of what it was when President Clinton took office, and all states have experienced double-digit percentage declines. For 22 states, the percent drop during 1998 was larger than during 1997 (from January to December). Previous analyses by the Department of Health and Human Services show that the percentage of welfare recipients working tripled between 1992 and 1997, and an estimated 1.5 million adults who were on welfare in 1997 were working in 1998.

- *The 1996 legislation has been a key contributor to the recent declines.* PRWORA produced a dramatic change in welfare policy: work and self-sufficiency became a primary goal; state and local governments were given much greater control of their programs; and states experimented with a host of program designs. The evidence suggests that these changes caused a large drop in welfare participation, a drop that is independent of the effects of the strong labor market. The estimates imply that TANF is the single largest factor that can be identified, accounting for roughly one-third of the reduction in caseloads from 1996-1998. In the earlier years, 1993-1996, most of the decline was due to the strong labor market, while welfare waivers played a smaller yet important role.

- *The strong labor market has made work opportunities relatively more attractive, drawing people off welfare and into jobs.* The unemployment rate has not declined as much in the post-TANF period as it did in the 1993-96 waiver period. As a result, the share of the decline in the caseload that is attributable to improvements in the labor market was much higher in the 1993-96 period (roughly 26 to 36 percent) than in the 1996-98 period (8 to 10 percent).

- *Past increases in the minimum wage have made work more attractive and, as a result, caused welfare participation to decline.* The estimates imply that a $0.50 increase in the minimum wage has been associated with a decline in welfare participation of 4-6 percent.

- *The specific program design adopted by a state can affect its caseload declines.* The study examines the effects of a number of specific policies, including family caps, earnings disregards, time limits, work exemptions, and work sanctions on the size of the caseload.

The large sustained declines in caseloads provide one piece of evidence about the effectiveness of welfare reform efforts. However, there are multiple indicators of success in welfare reform, including increases in work and earnings among welfare leavers, higher marriage rates and fewer out-of-wedlock pregnancies, improved child well-being in current and former welfare families, and lower poverty rates. The Clinton Administration is collecting and tracking information on all of these measures in order to fully assess the impact of welfare reform.

The Effects of Welfare Policy and the Economic Expansion on Welfare Caseloads: An Update

Objective of Study & Summary of Findings

During the first six years of the Clinton Administration, the number of people receiving welfare declined by 6.5 million. Not since 1968 has such a small share of families received welfare. Not only have the declines been large, they have also been widespread and continuous (Table 1). Between 1993 and 1998, all 50 states and the District of Columbia experienced double-digit percent reductions in welfare participation, and in most states the declines were unprecedented. Although a substantial share of the reduction occurred between 1994 and 1996, in many states the largest declines have occurred more recently. In fact, in 22 states the percentage decline during 1998 (from January to December) was greater than it was in 1997.

This study updates and extends a 1997 Council of Economic Advisers (CEA) study examining the relative importance of a variety of economic and policy changes on caseload declines.[1] The earlier study examined changes in welfare participation between 1993 and 1996; the current study updates that report by including data through 1998. It also analyzes the effects of additional factors, such as changes in the minimum wage as well as the welfare reforms enacted in 1996.

This report finds that from 1996-98 policy factors were extremely important, which is not surprising given the scope of the 1996 reform. The 33 percent decline in the recipiency rate between 1996 and 1998 was due in large part to the changes in state welfare programs implemented under the Temporary Assistance for Needy Family (TANF) block grant. Specifically, roughly one-third of the caseload decline between 1996 and 1998 was due to program reforms implemented under TANF, 8-10 percent was due to the improved labor market, about 10 percent was due to the higher minimum wage, and 1-5 percent was due to lower cash welfare benefits.

During 1993-96, roughly 26-36 percent of the caseload decline was due to the improved labor market. The relatively large effect of labor market conditions on the caseload over this period reflects the fact that the decline in unemployment between 1996-98 was much smaller than the decline experienced between 1993-96. Another 12-15 percent of the decline in welfare participation was due to welfare waivers, which were issued to states to allow them to experiment with alternative program designs. The caseload fell 6-22 percent because of lower inflation-adjusted welfare benefits. The real value of the minimum wage fell between 1993 and 1996 (the increase in the minimum wage in 1996 occurred in October, so it was not effective most of the year), which by itself would have caused the caseload to increase by about 10 percent. The remaining change was due to other factors.

[1] Council of Economic Advisers (1997). "Explaining the Decline in Welfare Receipt, 1993-1996: Technical Report," Executive Office of the President of the United States.

Table 1. Changes in the Number of Recipients in Each State

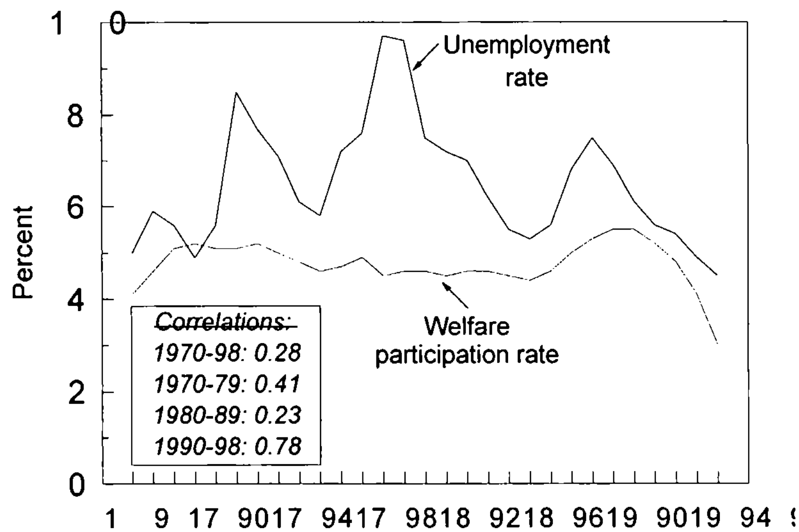
State	Number of recipients 1993	1998	Percentage Change From '93 to '96	'96 to '98	'93 to '98
Alabama	138,465	54,635	-26	-46	-61
Alaska	37,078	29,582	-1	-19	-20
Arizona	199,153	102,511	-16	-39	-49
Arkansas	71,989	32,633	-21	-43	-55
California	2,511,293	1,998,618	3	-23	-20
Colorado	122,890	50,746	-22	-47	-59
Connecticut	162,481	117,777	-2	-26	-28
Delaware	27,736	15,820	-16	-32	-43
DC	69,549	54,856	0	-21	-21
Florida	691,053	261,581	-22	-52	-62
Georgia	398,077	185,052	-15	-45	-54
Hawaii	57,336	46,724	16	-30	-19
Idaho	21,877	3,867	1	-83	-82
Illinois	694,050	476,576	-7	-26	-31
Indiana	215,367	111,176	-35	-21	-48
Iowa	102,438	65,665	-16	-24	-36
Kansas	88,363	34,536	-26	-47	-61
Kentucky	220,766	119,360	-22	-31	-46
Louisiana	259,762	124,800	-12	-46	-52
Maine	66,914	39,423	-18	-28	-41
Maryland	219,998	116,456	-11	-40	-47
Massachusetts	321,219	167,043	-28	-27	-48
Michigan	689,139	332,240	-26	-35	-52
Minnesota	192,173	143,685	-12	-15	-25
Mississippi	168,924	52,523	-26	-58	-69
Missouri	262,382	147,105	-14	-35	-44
Montana	34,875	19,540	-13	-35	-44
Nebraska	47,840	36,665	-20	-4	-23
Nevada	36,009	25,472	-2	-28	-29
New Hampshire	29,797	15,409	-22	-34	-48
New Jersey	345,370	196,947	-19	-30	-43
New Mexico	97,246	74,170	2	-25	-24
New York	1,215,526	886,746	-5	-23	-27
North Carolina	335,620	169,144	-20	-37	-50
North Dakota	18,215	8,541	-28	-35	-53
Ohio	712,277	340,179	-24	-37	-52
Oklahoma	135,762	61,191	-27	-38	-55
Oregon	117,852	46,001	-31	-43	-61
Pennsylvania	610,531	360,009	-14	-32	-41
Rhode Island	62,187	54,150	-8	-6	-13
South Carolina	146,280	60,110	-22	-48	-59
South Dakota	19,913	9,653	-21	-39	-52
Tennessee	310,486	149,089	-20	-40	-52
Texas	784,816	370,857	-16	-44	-53
Utah	52,144	28,258	-25	-28	-46
Vermont	28,301	19,643	-12	-21	-31
Virginia	194,765	99,053	-20	-36	-49
Washington	289,965	202,573	-6	-25	-30
West Virginia	118,113	38,638	-25	-56	-67
Wisconsin	235,247	40,167	-33	-75	-83
Wyoming	17,859	2,471	-32	-80	-86
Total	14,007,468	8,199,666	-13	-33	-41

Data are the average monthly caseloads for the calendar year.

Welfare Participation and the Labor Market

Caseloads normally fluctuate with the business cycle, rising in periods of high unemployment and declining when unemployment falls. Chart 1 illustrates this relationship between labor market opportunities and welfare participation over the past three decades. When unemployment increased in the early 1970s, so did welfare participation. The increase in welfare participation in the late 1980s and early 1990s, as well as the decline that began in 1994, also correspond with changes in employment opportunities during these periods. However, the trend in welfare participation does not always match that in unemployment, most notably when other important changes are taking place, including changes in family structure and welfare policies.

Chart 1. Welfare



Economic conditions vary across states as well as over time. Chart 2 displays a scatterplot of the unemployment rate versus the welfare participation rate for each state and the District of Columbia in 1994 when participation was near its peak. This relationship is quite strong, with a simple correlation of 0.65. While this correlation suggests a strong role for economic factors, it is likely to overstate their true role. Characteristics of states that influence their unemployment rates may also influence welfare participation. These characteristics include the age distribution, educational level, metropolitan/rural population shares, and racial and ethnic composition. While these factors may change over time, such change occurs more slowly than changes in policy or economic conditions.

One way to eliminate the effects of these "fixed" factors is to examine changes over time within states, which is the approach employed in this study. Chart 3 displays the simple relationship between the *change* in the unemployment rate and the *change* in the welfare participation rate in each state between 1994 and 1998. It demonstrates that once unchanging state characteristics are removed, the relationship between the unemployment rate and caseloads is not nearly as strong as the simple cross-sectional one, with a correlation of 0.17.

Chart 2. Welfare Participation Rate Versus
Unemployment Rate for Each State, 1994

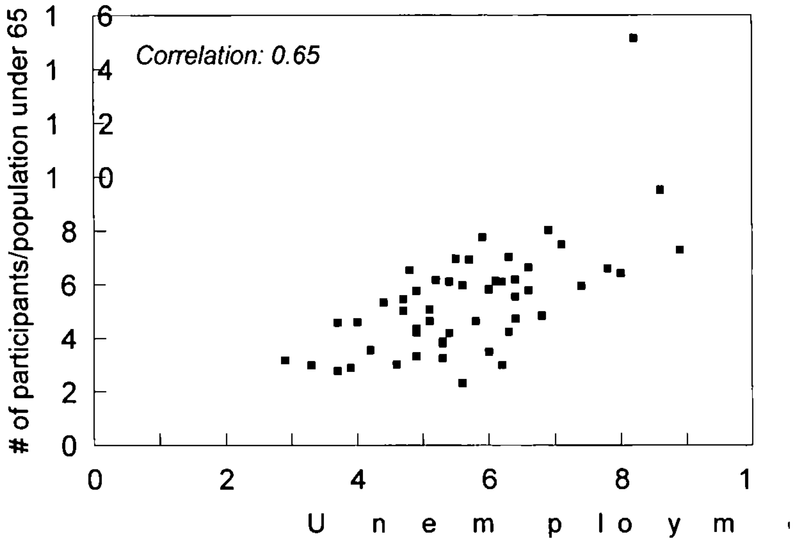
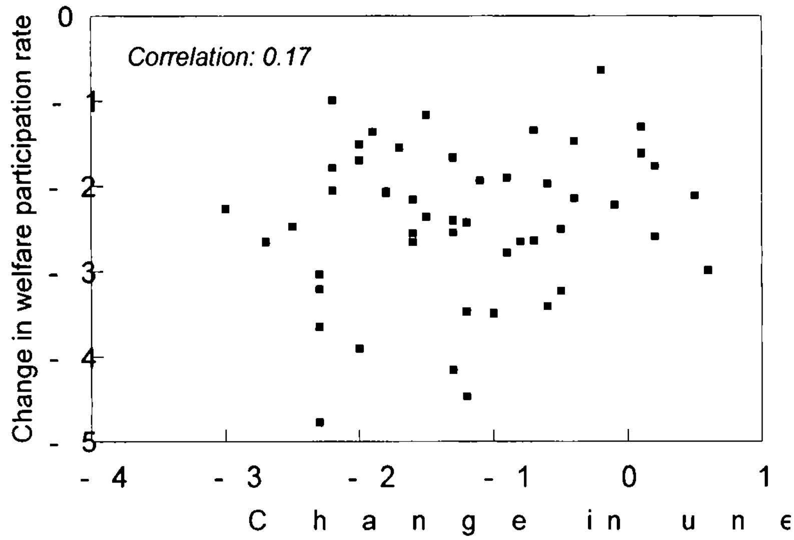


Chart 3. Change in Welfare Participation Rate Versus
Change in Unemployment Rate for Each State, 1994-98



[Automated Records Management System Hex-Dump Conversion]

The changes over time for the nation as a whole also suggest that factors other than the economy have a substantial effect on welfare participation (Chart 1). For example, increases in welfare participation during the recession of the early 1980s were truncated by eligibility restrictions that were part of President Reagan's welfare reform efforts in 1982. As a result, over the entire 1980s the simple correlation between unemployment and welfare participation was much lower (0.23) than it was in the 1970s (0.41) or the 1990s (0.78).

FEDERAL AND STATE POLICIES

A number of key policy changes have been implemented in recent years and might be expected to have had an impact on welfare participation and caseloads.

Welfare Waivers

Since 1962 the Secretary of Health and Human Services has had the authority to waive federal program requirements in the Aid to Families with Dependent Children (AFDC) program if a state proposed experimental or pilot programs that furthered the goals of AFDC. Although there were a few waivers granted in the early 1980s, it was not until the early to mid-1990s that major, state-wide waivers became widespread. Between 1993 and 1996, the Clinton Administration issued welfare waivers to 43 states, more than any previous Administration. Table 2 lists the date that each state implemented a major state waiver.

These waivers varied substantially across states, and in many cases they differed greatly from the rules under AFDC. Some waivers increased the amount of earnings recipients were allowed to keep and still be eligible for welfare. Other waivers expanded work requirements to a larger number of recipients, established limits on the length of time recipients could remain on aid, permitted states to sanction participants who failed to meet work requirements, or allowed states to eliminate benefit increases to families who conceived and gave birth to children while on welfare (the so-called "family cap"). Given the widespread use of waivers and the degree to which these policies differed from traditional AFDC policy, there is substantial reason to believe that waivers contributed to changes in welfare caseloads.

Like the 1997 CEA study, this report focuses on six "major" types of waivers that received approval to be implemented state-wide[2]: termination time limits, work requirement time limits, family caps, JOBS exemptions, JOBS sanctions, and the earnings disregard. Each of these policies was discussed in detail in

[2] In a few instances waivers were examined which were not approved to be implemented state-wide but affected a large share of the state's caseload.

Table 2. Dates of Major Welfare Waivers and TANF Implementation

	Date of First Major Waiver Implementation	TANF Implementation Date
Alabama		11/15/96
Alaska		7/1/97
Arizona	11/1/95	10/1/96
Arkansas	7/1/94	7/1/97
California	12/1/92	1/1/98
Colorado		7/1/97
Connecticut	1/1/96	10/1/96
Delaware	10/1/95	3/10/97
DC		3/1/97
Florida		10/1/96
Georgia	1/1/94	1/1/97
Hawaii	2/1/97	7/1/97
Idaho		7/1/97
Illinois	11/23/93	7/1/97
Indiana	5/1/95	10/1/96
Iowa	10/1/93	1/1/97
Kansas		10/1/96
Kentucky		10/18/96
Louisiana		1/1/97
Maine		11/1/96
Maryland	3/1/96	12/9/96
Massachusetts	11/1/95	9/30/96
Michigan	10/1/92	9/30/96
Minnesota		7/1/97
Mississippi	10/1/95	7/1/97
Missouri	6/1/95	12/1/96
Montana	2/1/96	2/1/97
Nebraska	10/1/95	12/1/96
Nevada		12/3/96
New Hampshire		10/1/96
New Jersey	10/1/92	7/1/97
New Mexico		7/1/97
New York		11/1/97
North Carolina	7/1/96	1/1/97
North Dakota		7/1/97
Ohio	7/1/96	10/1/96
Oklahoma		10/1/96
Oregon	2/1/93	10/1/96
Pennsylvania		3/3/97
Rhode Island		5/1/97
South Carolina		10/12/96
South Dakota	6/1/94	12/1/96
Tennessee	9/1/96	10/1/96
Texas	6/1/96	11/5/96
Utah	1/1/93	10/1/96
Vermont	7/1/94	9/20/96
Virginia	7/1/95	2/1/97
Washington	1/1/96	1/10/97
West Virginia		1/11/97
Wisconsin	1/1/96	9/1/97
Wyoming		1/1/97

the appendix to the 1997 CEA Technical Report.[3] Some of the waivers that were approved for state-wide implementation were initially implemented state-wide, some were implemented in selected areas of the state, while still others began in small regions of the state but were eventually phased in state-wide. Information on the pace of implementation is not available for all states. Therefore, the date that is used to signal implementation is the date that the waiver began to be implemented.[4]

The statistical analysis in this report, as in the earlier CEA report, compares states that did and did not have welfare waivers, determining whether those states that implemented waivers experienced larger caseload declines than those that did not. It improves on the earlier report by using the actual date the waivers were implemented in the states rather than the dates they were approved by HHS. In making these comparisons, the current analysis also adjusts for other differences across these states that may account for the differential decline, including economic conditions, cash benefit levels, and the minimum wage.

PRWORA

Enacted in August of 1996, the Personal Responsibility and Work Opportunity Reconciliation Act (PRWORA) is designed to emphasize self-sufficiency and employment in place of welfare dependency and gives states greater flexibility to design and implement programs to achieve these goals. Benefits are time-limited; adults usually cannot receive Federal aid for more than 5 years during their lifetime, and some States have chosen to set shorter time limits. Most recipients must also participate in a work activity within two years to continue receiving aid.

PRWORA abolished the AFDC program and established the Temporary Assistance for Needy Families (TANF) block grant to help states fund their welfare programs. Under the TANF block grant, Federal assistance consists of an annual fixed transfer to each state equal to the amount of federal transfers the state received in fiscal year 1994, 1995, or the average of 1992-4, whichever was higher. In addition, most of the authority to design welfare programs was passed along to the States, who are required to have half of all recipients working by 2002 (40 percent by 2000). As a result, there are now substantial differences in how welfare programs operate across the nation. Some states increase benefits to welfare families who have additional children, while others do not. Some states stop payment of benefits to the entire family at the first instance of their failure to meet work activity requirements, while other states never sanction more than the adult. Most states allow welfare recipients to keep a substantial portion of their labor market earnings without reducing their welfare payments, while others do not. We investigate both the overall effect of TANF-funded programs on caseloads, as well as the impact of specific policy choices made by the states as part of their waiver or TANF-funded plan.

The effects of the new state programs implemented under the TANF block grant are estimated by examining changes in each state's caseload before and after it implemented TANF, again, after adjusting for other factors such as the unemployment rate and the minimum wage. States were required to submit their TANF plans to the Department of Health and Human Services for approval no

[3] It was determined that the waiver in West Virginia, which was considered a "major" waiver in the 1997 CEA study, did not in fact meet this requirement (Martini and Wiseman, 1997), which is reflected in Table A1.

[4] Somewhat larger effects are estimated when the date of approval, which was utilized in the 1997 CEA study, is used instead of the date of implementation, as described in appendix A.

later than July 1, 1997. Some states moved quickly after PRWORA was passed to enact TANF-funded programs, building on their welfare reform waivers, while other states operated for a period of time under the older AFDC program rules.[5] The date that each state implemented its TANF program is listed in Table 2.

Minimum Wage

A higher minimum wage can make work more attractive, giving welfare recipients a greater incentive to enter the workforce and leave public assistance. On the negative side, if a higher minimum wage reduces employment of low-skilled workers, some people may lose their jobs and enter welfare. At the same time, an increase in the minimum wage may lead employers to substitute away from teenagers (a relatively large share of whom work for the minimum wage) and towards older welfare workers (who are perhaps not as likely to work at the minimum wage, but more likely to be working just above the minimum than teenagers). The latest empirical evidence is mixed, but most studies find either modest or no disemployment effects associated with past increases in the minimum wage.

The minimum wage also varies among states, with 15 states having minimums above the federal floor at some point during the period analyzed in the study (1976-1998). Therefore, the study compares the relationship between welfare participation and minimum wages over time and across states.

AFDC/TANF Benefit Levels

States have long set their own level of maximum monthly benefit payments, with variation by family size and composition. All else equal, higher benefit levels are expected to increase the number of participants. Over the period of this study, the inflation-adjusted level of welfare benefits fell in almost all states. In some cases the state explicitly lowered (or raised) benefits, but in most states benefit levels were fixed and eroded over time with inflation.

DATA AND METHODOLOGY

Using annual calendar year data from 1976 to 1998 on all states and the District of Columbia, the analysis is based on 1,173 observations. A set of models are estimated, which correlate movements in welfare participation with movements in state unemployment rates, state AFDC benefit levels, state/federal minimum wage levels, the implementation of state waivers, and the implementation of state TANF-funded welfare programs.[6]

The estimated models also control for the characteristics of states that are largely unchanged over the entire (1976-98) time period, and for changes in each year that are common to all states. In technical

[5] In most cases, the waiver concept becomes meaningless once TANF was implemented because states were given broad control over their welfare policies. In particular, states could operate the broad categories of policies under TANF, whether or not they were continuing a waiver. However, if a state continued a time limit waiver, then participants' time clocks in that state would have been running prior to TANF implementation. As a result, these participants would reach their time limits more quickly than if their clock would have been reset on the date of TANF implementation.

[6] Most of the data used in the analysis come from well-known sources, with a few exceptions. The information on implementation dates as well as program waivers and TANF were obtained from the Department of Health and Human Services and the Urban Institute (Gallagher et al., 1998).

jargon this is known as controlling for state and year fixed effects; this technique is used in all existing studies of annual caseload changes. The estimates are based on a technique known as weighted least squares, which uses the data across states and over time, and weights the data in each state by its overall population. A Technical Report is available which provides more details on the data and the estimation procedures for interested readers. As always in such studies, we estimate a variety of slightly different models to test the robustness of our results to the exact set of variables included.

The results of this methodology are to estimate the effect of changes in the economy or in policies *over time within a state* on the caseload in that state. Hence, the results are the direct result of asking "If variable X changes over time within a state, what will be the effect on caseloads in that state?" This is clearly the question in which we are most interested. It allows us to measure the effects of (say) waiver implementation or unemployment changes on caseload changes over time.

This approach is very similar to the approach used in the 1997 study. One difference is that the earlier study emphasized models that incorporated a "lead" effect of waiver policies. That is, waivers were allowed to affect caseloads one year prior to the date they were approved. While the current study also reports models that incorporate leads, the preferred models do not contain leads. This difference explains why waivers were found to account for 31 percent of the change between 1993 and 1996 in the 1997 study, but only 12-15 percent of the change in the current study.

RESULTS

These results report the estimated effects on caseloads of each of the variables discussed above, holding constant the effects of changes in all other variables. Chart 4 shows the contribution of various factors in the recent 1996-98 period.

The 1996 welfare reform legislation has been a key contributor to caseload declines since it was enacted. The average state experienced an 18 percent decline in welfare participation following the implementation of their TANF-funded state welfare plan, holding all other policy and economic variables constant. These new state programs funded by the TANF block grant account for roughly one-third of the 33 percent decline in the recipiency rate that has occurred since 1996 (Chart 4).

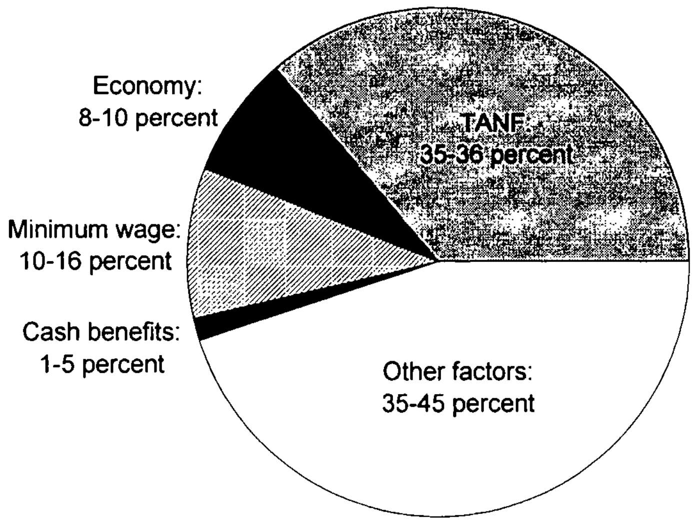
As reported in the earlier CEA study, welfare waivers that were implemented prior to PRWORA explain a substantial share of the caseload decline from 1993 to 1996. States that implemented major waivers experienced an 8-9 percent greater decline in welfare participation than states that did not, holding all other policy and economic variables constant. This accounts for 12-15 percent of the overall decline between 1993-96.

The strong labor market has made work opportunities relatively more attractive, drawing people off welfare and into jobs. The unemployment rate has not declined as much in the post-TANF period (1996-98) as it did in the 1993-96 waiver period. As a result, the share of the decline in the caseload that is attributable to improvements in the labor market was much higher in the 1993-96 period (26 to 36 percent) than in the 1996-98 period (8 to 10 percent). This study reaffirms the importance of maintaining a healthy macroeconomy with low unemployment rates in order to help families move off and remain off of welfare. Any future 1-percentage-point increase in unemployment is likely to produce a 5 to 7 percent increase in welfare caseloads.

The study also finds that increases in the minimum wage have made work more attractive and, as a result, caused welfare participation to decline. The estimates suggest that a $0.50 increase in the minimum wage has been associated with a decline in welfare participation of 4 to 6 percent. Hence, the recent minimum wage increases have helped reduce welfare rolls (Chart 4).

As many other studies have confirmed, higher welfare benefit levels result in higher caseloads. As noted above, this need not reflect any behavioral differences in higher-benefit states, but may only be due to the fact that higher benefits typically imply that a larger share of the population is eligible to receive public assistance.

Chart 4. Percentage of Change in Participation from 1996-98 Attributable to Each Factor



The specific program design adopted by a state can affect its caseload declines. The study examines the effects of a number of specific policies, including time limits, earnings disregards, work sanctions, family caps, and work exemptions on the size of the caseload. We estimate the effects of these policies regardless of whether they were implemented as part of a state's waiver plan or a TANF-funded plan. Our results on the effects of specific policies should be interpreted with caution, since only a limited number of states have implemented many of these policies for only a relatively short period of time. The primary results with regard to these policies are:

- Time limits have the expected negative effect, but this is not precisely estimated (very few participants have actually hit time limits in any state.)

- Higher earnings disregards raise participation modestly.

- Strong work sanctions are associated with declines in welfare participation.

- Contrary to expectations, family caps are associated with an increase in caseloads.
- Work exemption policies based on the age of the youngest child do not play a substantial role in determining caseloads.

Conclusions

The large sustained declines in caseloads provide one piece of evidence about the effectiveness of welfare reform efforts. This study suggests that caseload declines have occurred in part because of a strong economy with low unemployment rates. However, policy changes by state and Federal governments have been even more important in explaining the post-1996 decline than the strong labor market. The new state programs implemented following the enactment of PRWORA, most of them focused on increasing work effort among welfare participants, have been the most important identifiable factor explaining the decline from 1996-1998. Increases in the minimum wage, at the Federal level and among some states, have also reduced caseloads.

However, there are multiple indicators of success in welfare reform, including increases in work and earnings among welfare leavers, higher marriage rates and fewer out-of-wedlock pregnancies, improved child well-being in current and former welfare families, and lower poverty rates. The Clinton Administration is collecting and tracking information on all of these measures in order to fully assess the impact of welfare reform.

RECORD TYPE: PRESIDENTIAL (NOTES MAIL)

CREATOR: Michael Waldman (CN=Michael Waldman/OU=WHO/O=EOP [WHO])

CREATION DATE/TIME:22-JUL-1999 09:18:42.00

SUBJECT: comments to loretta ucelli on the road

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

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

TO: Douglas B. Sosnik (CN=Douglas B. Sosnik/OU=WHO/O=EOP@EOP [WHO])
READ:UNKNOWN

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

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

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

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

TO: Lawrence J. Stein (CN=Lawrence J. Stein/OU=WHO/O=EOP@EOP [WHO])
READ:UNKNOWN

TO: Dawn L. Smalls (CN=Dawn L. Smalls/OU=WHO/O=EOP@EOP [WHO])
READ:UNKNOWN

TEXT:
INSERT) page 12 A

Now, the House worked late into the night. A great deal of dust was kicked up. Some minor changes were made in the bill. But the fundamental fact remains: those lawmakers who vote for this tax cut today are voting to not put one red cent toward saving Social Security and Medicare, toward funding education and other vital national needs. Yet it offer special breaks to special interests. It includes a tax break for using chicken droppings for electricity. And it removes excise taxes for fishing tackle boxes. This is almost a parody of Washington at its worst.

INSERT) 12 B

I urge the Congress to reconsider. A great deal is at stake. This reckless tax cut would rob our children of opportunity, squander our chance to build them a secure future. I was very pleased that fifty leading economists) including five Nobel Prize winners) today released a letter endorsing my approach and urging the Congress not to put our prosperity at risk. We have a golden and unprecedented opportunity to invest for tomorrow and pay off the debt, and these economists are asking us to seize it.

RECORD TYPE: PRESIDENTIAL (NOTES MAIL)

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

CREATION DATE/TIME:23-JUL-1999 11:55:19.00

SUBJECT: Request

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 [CEA])
READ:UNKNOWN

TEXT:
Dear Janet,
Could you please look into the status of the CEA application for an SES position and see if there is anything you can do in your final week to boost the chances of its approval. (The attached email from Michele implies a decision date of September 1999). Alternatively, if you do not agree that an SES position for the CEA is a good idea, you would be doing me a favor by telling me so. I am distressed because I had expected this matter would have been decided in 1997*and I fear that it is not important to anyone besides me.

I had one conversation with Audrey on this matter (in May). I was pleasantly surprised that she knew all about this proposal without my having to explain. She also told me that she had heard that the chances were not that good.

I don't know anything about the optimal strategy for lobbying for this position, but if there is a choice of strategies, I would counsel for the one that maximizes the chance of success--rather than the one that results in an early decision. (I mentioned this preference to Michele last February.)
---------------------- Forwarded by Steven N. Braun/CEA/EOP on 07/23/99 11:39 AM ---------------------------

Michele Jolin
02/23/99 02:18:51 PM

Record Type: Record

To: Steven N. Braun/CEA/EOP@EOP
cc:
Subject: SES position

Steve -- Below is a message from the OA personnel folks. As you can see, OPM would like to once again put off the decision on CEA's request for an SES position. I need to talk to Janet about what she wants to do next. We could push them to make a decision before September 1999 -- e.g. Janet

could send a letter to the head of OPM asking that CEA's request be considered prior to the biannual allocation process because it is an "emergency". On the other hand, it may be difficult to argue that it is an "emergency" and it may be counterproductive for us to push them. To be honest, this is the first I have heard of this biannual allocation process. And I don't know how seriously they stick to their plan to only consider requests every 2 years.
Again, I am going to talk to Janet about this. But let me know what your thoughts are on all of this..
Michele

As I discussed with you by telephone yesterday, our office has temporarily reached an impasse with OPM over the issue of CEA's request for one SES allocation. After having spoken with myself, our classifier, and our Director, Mary Beck, and after our answering all of their questions, they are taking the position that there is no reason for them to give an immediate answer.

OPM is maintaining that since there is no urgent emergency situation that requires an immediate SES slot, CEA should wait until OPM completes its biennial allocation of SES slots for all Federal agencies before receiving an answer as to whether or not CEA will be granted an SES slot. Since the general allocation need not be completed until the end of fiscal year 1999, this could be quite a long wait just to find out whether their answer is yes or no.

If your agency should decide to independently contact OPM on this issue, I would make one suggestion. It would likely be counter-productive to argue that the slot is urgently needed because of concern that the incumbent will leave. OPM is likely to interpret this as "preselection" for a career position. Instead you may wish to present your case without any reference to any particular individual. You could discuss the need for ongoing continuity in that position because of the nature of the work and the expertise that position provides to the agency. In fact, you have already expressed this concern in a previous e-mail you wrote on this subject. Any additional reasons your agency may have concerning the "urgency" of a decision prior to September 1999 should also be included.

RECORD TYPE: PRESIDENTIAL (NOTES MAIL)

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

CREATION DATE/TIME:26-JUL-1999 11:12:26.00

SUBJECT: Productivity

TO: Steven N. Braun (CN=Steven N. Braun/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.D23]ARMS20534860A.236 to ASCII,
The following is a HEX DUMP:

COMMENTS ON PRODUCTIVITY FOR **INTERNATIONAL ECONOMY**

During the past four years, productivity in the nonfarm sector has grown at a remarkable 2 percent pace, up sharply from its 1.2 percent rate (adjusted for methodology changes) over the previous 4 years. The implications have already been far reaching, helping to suppress inflation, boost profits, and sustain solid gains in real wages after nine years of stagnation. Does this strong performance herald a permanent improvement in the U.S. productivity trend? It is simply too soon to tell. I am hopeful, but remain agnostic.

One factor which accounts for part of the productivity surge is the investment boom which has driven this expansion, the consequence of an historic shift in the stance of fiscal policy. The switch from chronic and growing deficits in the Federal budget to surpluses has boosted national saving, cut interest rates and spurred private investment. Capital per hour grew at a 1.4 percent annual rate from 1994 to 1997 <update to 1998>, up from just 0.8 percent per year during 1990-1995.

Although capital deepening--faster growth in capital, particularly computers and equipment, per worker--may explain part of the productivity improvement, the gains exceed what would normally be attributable to increased investment. This may well reflect, as "new economy" advocates suggest, the fact that several major technological developments have finally come of age. Indeed the pace of productivity improvement in the computer industry itself has been stunning and is contributing significantly to the economy wide trend; and new technologies may be permitting far-reaching changes in the way businesses are managed. In some industries, such as financial services, the productivity improvements these technologies permit are not well captured in the statistics. One hopes that these inventions will achieve the importance of the steam engine and the electric dynamo.

But at least two notes of caution are in order. First, productivity is a highly cyclical variable, typically rising when output grows rapidly. Without the benefit of greater hindsight, it is difficult to rule out the possibility that some of the recent productivity surge is cyclical. In addition, the stunning productivity performance of the last few quarters is based on preliminary data. Productivity revisions can be substantial. Only time will tell if recent productivity trends will be sustained. We can improve the odds by by maintaining the fiscal discipline which is responsible for our investment boom.

RECORD TYPE: PRESIDENTIAL (NOTES MAIL)

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

CREATION DATE/TIME:26-JUL-1999 21:35:12.00

SUBJECT: Speech

TO: rjakerlof@aol.com (rjakerlof@aol.com @ inet [UNKNOWN])
READ:UNKNOWN

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

TEXT:
Unable to convert ARMS_EXT:[ATTACH.D50]ARMS27497670F.236 to ASCII,
The following is a HEX DUMP:

I would like to begin by thanking Alan, Larry, Gene and Robert for their very kind and generous remarks. It has been an extraordinary honor and a real pleasure to have had the chance during these past five years to work with them and with so many other people who are gathered in this room. This has been an exciting, rewarding,and unforgettable experience. I owe an enormous debt of gratitude to President Clinton for allowing me to serve on this distinguished team. When I moved to the White House, I noticed that the term "economic team" was routinely used, but I was uncertain about its operational meaning. What I quickly recognized is that this is a White House populated not by prima donnas fighting for turf and the ear of the President but by collegial and committed individuals, working collaboratively in the pursuit broadly shared goals. I feel priviliged to have had the chance to work day in and day out, with formidably talented and dedicated individuals—Larry, Gene, Jack Lew, John Podesta and so many others.

In the division of labor among the members of the economic team, I have had perhaps the most enviable job--to be the bearer of good news, the person who gets to report what has been a virtually unbroken string of superlatives about the performance of the American economy. You all know the talking points: the current expansion is now the longest in peacetime history, and quickly on its way to setting a record as the longest in all of American history. On top of that, inflation is low, real wages are rising handsomely, we are enjoying an investment and productivity boom and job growth and earnings gains for disadvantaged workers who have too long been sidelined in the labor market. These accomplishments have become so familiar that it is easy to to take them for granted and to forget how genuinely spectacular they are. At the time I came to Washington I would not have taken a bet at 10 to 1 odds that the unemployment rate would dip below 5% and stay there for n months while inflation would decline to 1.5% and remain low. And I can still remember the excitement I felt on the morning when I announced in our staff meeting that the unemployment rate had dipped into the 4's—an accomplishment I had not truly expected to occur in my life time. Academic economists are likely to debate for years to come whether the economy has changed. But, no one will ever doubt that the policies put in place by this President and his economic team deserve credit for the lion's share of the success. I feel enormously proud to have served on that team.

The Council of Economic Advisers is a remarkable institution and I will greatly miss it. It is an institution that no organization theorist would ever imagine could work. Its design seems like a recipe for disaster: the senior personnel, the members, typically come for two years. The people directly under them—the senior economists, staff economists and RAs--come for only one year, usually from Universities with little or no previous experience in government. They typically arrive in the summer, overlapping with their predecessors for a day if all works well; must quickly get up to speed on the active policy issues, while preparing the ERP as a hobby in their spare time. There are many late nights, many takeout pizzas and great camraderie among a cadre of individuals who are excited by the chance to participate in policy at a high level and becoming savvier by the day about how the policy process works. As soon as they have mastered the complexities, and become invaluable members of the team, of course, it is time to rehire a new staff. There are just a handful of critical, invaluable people who carry on the traditions and the spirit of the Council over more than a year or two. Yet remarkably, the CEA does, I believe, work. And for the past 53 years it has played an important role in the government because it has brought some of the best and brightest members of the economics profession, individuals at the cutting edge of their fields, with imaginative ideas and extraordinary energy, into the policy making process. It has sought to provide objective and dispassionate advice to the President and his team, even if that often means often being the bearer of bad news—pointing out the flaws in policy proposals under consideration, enumerating their potential for adverse repercussions or documenting their costs. The CEA's job has been to examine economic evidence and bring it to bear in policy design and to focus on the requirements for fostering good economic performance in the longer term. In their reflections on economic policy, CEA members in former Administrations have often complained about the short-run focus of policy and bemoaned the lack of attention given to issues affecting longer term economic performance. In fact, Herb Stein suggested that it might be useful to segregate a portion of the CEA staff to think only of what the economy and its problems might look like in, say 25 years. For the record, I want to say that I actually followed Herb's advice and assigned a substantial share of the CEA staff to concentrate on problems which will become acute not in weeks, months or years but only in decades and even centuries to come: namely Social Security reform and climate change.

In a small agency like the CEA the members and staff work closely and intensely together. Many long lasting friendships are formed. I am especially grateful to have had the chance to work with four outstanding CEA members: Robert Lawrence, Becky Blank, Jeff Frankel and Alicia Munnell, all outstanding economists and great friends. I want to especially thank Chad Stone, our WEB editor, and Steve Braun, our Director of Forecasting for the outstanding jobs that they do for the Council. I have greatly enjoyed working with them. I am also grateful to my two Chiefs have staff for their support: Audrey Choi and Michelle Jolin. I want to especially thank Alice Williams and Sandy Daigle for their friendship and for all of their excellent work as my Administrative Assistants. They have the job of seeing that as members and staff come and go, the CEA keeps running smoothly. Finally, I want to thank my husband and my son for their enthusiastic and wholehearted support.

I am sad to bid farewell to the CEA but hopeful that while losing a CEA Chair you will be gaining an outside validator.

RECORD TYPE: PRESIDENTIAL (NOTES MAIL)

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

CREATION DATE/TIME:26-JUL-1999 08:35:26.00

SUBJECT: sunday tv shows

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

TEXT:
fyi, both Gene and Larry were very much on message on the sunday shows, in a nutshell:

first things first; pay down the debt; medicare; social security -- then a tax cut that encourages saving-- not one that gives the vast majority of the savings to the top income brackets.

both said that the president would veto a 800 bln tax cut, as well as a 500 bln tax cut. nothing was said about a veto on any figure lower than 500.

RECORD TYPE: PRESIDENTIAL (NOTES MAIL)

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

CREATION DATE/TIME:27-JUL-1999 11:16:20.00

SUBJECT: America's Productivity Uptick (Jonathan Leeman)

TO: TIEconomy@aol.com (TIEconomy@aol.com @ inet [UNKNOWN])
READ:UNKNOWN

TEXT:
Thank you for your invitation to contribute a response on the issue of America's productivity uptick. If it is not too late, I'd be happy to weigh in, and will send a response to you tomorrow. You should know, however, that I am resigning my position as CEA Chair effective August 2 to return to the University of California at Berkeley where I will be the Eugene E. and Catherine M. Trefethen Professor of Business Administration.

RECORD TYPE: PRESIDENTIAL (NOTES MAIL)

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

CREATION DATE/TIME:27-JUL-1999 14:51:25.00

SUBJECT: Lockhart q&a and potus interview on medicare with AARP

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

TEXT:
fyi, here's some q&a from lockhart's briefing today. below is transcript of POTUS's interview with AARP on tax cuts and medicare

Q What does the President think of Senator Kerrey jumping ship and going to the Republican side on the tax cut?

MR. LOCKHART: Well, I think the President has made his views well-known. He doesn't believe we have the ability to provide for the kind of exploding tax cut that the Republicans have put forward, and he respectfully disagrees with Senator Kerrey's assessment of the situation. I think --

Q Did he know he was going to?

MR. LOCKHART: Yes. I think he met with the Senate Finance Committee Democrats -- a week ago Monday? -- about a week ago. And Senator Kerrey made his views known, and I think he was probably -- he is the lone Democrat on the committee who believes that the Republican package is possible.

But I think, if you're looking for some evidence that the plan doesn't work, all you have to do is look at what went on yesterday in the appropriations process. The Republicans are talking about, even before enacting their tax cut, having to go to smoke and mirrors and accounting gimmicks of emergency spending on things like the census in order to fund government. Then they want to take the next step and say, well, let's have a trillion-dollar tax cut.

The numbers don't add up, and they only add up for the Republicans on one of two ways. One, they're willing to go back to deficit spending, which is unacceptable to the President and unacceptable to most economists. And I think from Wall Street to the Fed, people have weighed in on the problems with their plan. Or, if you look at their numbers, they'll have to -- if they keep up with the President on defense, which we think is the minimum we need to spend, we'll have to have 50-percent cuts in domestic spending. Well, that's unrealistic. It's not going to happen.

We can see that it's not going to happen by just looking at what they're doing now. They're trying to find any gimmick they can to keep government going because they're not willing to stand up and say, here are the programs we want to cut. So it's just unrealistic that they'll go into the future and look at 50-percent cuts in government spending.

Q What do you think about the conditional tax deduction, you know, saying that the House Republicans --

MR. LOCKHART: I think about as much of it as the House Republican leaders did and the honest ones who said it was a gimmick to get them enough votes to get it off the floor. It is not a realistic plan. It doesn't address the problems of Social Security and Medicare, and it's probably more of a political statement than anything else.

---------------------- Forwarded by Audrey Choi/CEA/EOP on 07/27/99 02:50 PM ---------------------------

Sean P. O'Shea
07/27/99 02:33:57 PM
Record Type: Record

To: See the distribution list at the bottom of this message
cc:
Subject: 1999-7/22 POTUS interview w/AARP

THE WHITE HOUSE

Office of the Press Secretary

INTERVIEW OF THE PRESIDENT
BY
MIKE CUTHBERT OF
AARP'S PRIME TIME RADIO

July 22, 1999

Lansing Community College
Lansing, Michigan

2:20 P.M. EDT

Q Hi, I'm Mike Cuthbert in Lansing, Michigan. Welcome back to Prime Time Radio. As we promised you, we'll present full and in depth discussion of the proposed changes in our health care system, with particular focus on Medicare, as the year 2000 campaign begins. But the discussion of Medicare has not waited for the campaign to start, as you know.

With us here in Lansing, Michigan, is President Clinton, who just finished having a discussion with folks from Michigan on Medicare. Mr. President, welcome to Prime Time Radio.

THE PRESIDENT: Thank you. I'm glad to be here.

Q Back in 1992, in a long discussion about health care reform, you stopped the proceedings and you said very firmly, without wholesale health care reform we have no hope of a stabilized, long term economic recovery. The economic recovery has been long, but health care reform didn't happen. How does that impact on the Medicare plans?

THE PRESIDENT: Well, the one thing that I didn't believe that has happened that was good is that we had -- I didn't believe that we could get health care inflation down to the general rate of inflation without moving to universal coverage. And I think what happened was we got all the benefits of managed care in the early years, and we were very fortunate to do so, but now we're also living with the burdens as you hear all the horror stories that prompted me to push the patients' bill of rights.

So I think where we are now is -- where I am, at least, is I'm trying to extend health insurance coverage to discreet groups that don't have it, to try to improve the way the system works and do more preventive care and to try to modernize and stabilize the Medicare program. For example, we, two years ago, provided for funds to cover 5 million children who don't have health insurance. In this Medicare reform package we have a proposal to allow people between the ages of 55 and 65 who don't have insurance to buy into Medicare.

But the most important thing we can do now is to stabilize Medicare financially by putting some more cash into it over the next 10 years, by adopting the most modern practices and by providing more preventive services free, like testing and screenings for osteoporosis and cancer and other things, and adding a prescription drug benefit that we can afford.

So I think that this will be a very good, balanced package. It's completely voluntary. It gives seniors another choice on Medicare. But the most important thing is it stabilizes Medicare for 27 years, and that's very, very important, because all the baby boomers start retiring in -- well, they'll start retiring sooner, but the baby boomers start turning 65 in 2011. The oldest baby boomers are already in the

AARP -- that seems impossible to me, but there it is. (Laughter.)

So, to me, it's very, very important that we not spend too much of this surplus on a tax cut before we do the first things first -- before we stabilize Social Security, stabilize Medicare and reform it. And, incidentally, my proposal, if it's adopted as I sent it to Congress, would also make America debt free in 15 years, for the first time in 160 years, so that would be a good thing to do, as well.

Q One thing I noticed you have done since this focus began -- and you did it again here, in Lansing -- was you always mention Medicare and Social Security and you never fail to mention education. This program talks a lot about sandwich generation issues. What do you see and what should the American people see as the importance of that link between Medicare, Social Security and education, which seem to be appealing to two different audiences?

THE PRESIDENT: Well, I think that they tie families together and they tie the future together. For example, younger people should care a lot about stabilizing Social Security and Medicare, not just for themselves, but so that they will not be financially burdened by their parents aging. The number of people over 65 is going to double in 30 years -- double. People over 80 are the fastest growing group of Americans.

So if you're going to be -- in 10 years from now if you're going to be 45 years old and have kids going to college, you ought to be interested in this because you ought to want our programs to be strong so that your parents can support themselves with their own retirement from the Social Security, and you'll be free to raise your parents' grandchildren. So it is an inter-generational thing.

If you look at the education issue, the ability of America to sustain our economic dominance long term will rest increasingly on the ability of America to education all American kids to world-class standards so they can occupy tomorrows with jobs. And so the older people have a big vested interest in education, apart from generally caring about how their grandchildren are going to do in the world because it will stabilize and strengthen America. And we should look at America as a whole, we ought to -- we've got to deal with the aging of America, we've got to deal with the challenges to the children of America and we've got to make sure we can keep the economy going. If you do those three things I think we'll solve a lot of the other problems just on our own.

Q Critics of the surplus debate have said that nobody can guarantee the economic growth that is at the bottom of your plan. It seems to me -- and I wish you to comment on this -- that that may be the most important part of that education you're talking about, that without that education that economic growth underlying this whole thing and the surplus isn't possible.

THE PRESIDENT: Absolutely. Let me say, though, to people who say that you can't be absolutely certain the surplus will be there as projected for 10 years, or 20 years, to me that's an even stronger argument not to go out and give it away before it materializes with a big tax cut. At least if you adopt my plan you know that we're going to be saving the lion's share of it for Social Security and Medicare and paying the debt down. So if it doesn't all materialize, at least you're going to be making headway.

But I should say a little something about economic forecasting, because it relates to what you said about education. When we say the surplus will be such and such over 10 years, based on the economists' forecasts, it doesn't mean that we think every year will always be better than the next and there will never be a recession or never be an economic slow-down. What these economists do is they factor the patterns of economic performance over a long period of time and they say, if you assume the average number of downturns and the average number of upturns and the economy performs as it has been performing for the last 10 to 20 years, then this is what the surplus will be.

In other words, we have eliminated the so-called structural deficit. We never really had a big, permanent deficit in America until 1981, you know, in peacetime, just a permanent deficit. And we quadrupled the debt in 12 years. We have gotten rid of that. So now if we had, God forbid, a big downturn next year or the year after next, we might even run a little deficit because there would be fewer people working and more people getting tax money. But over the 10 year period the surplus estimate is almost certainly right.

Q Can we turn for a moment to nursing homes? They've been running ads recently in major papers across the country about the effects of the Balanced Budget Act amendment cuts, some $2.6 billion. My mother is in a nursing home and I can see the effects on her -- less exercise periods, more difficulty getting service, more turnover in staff. How would your Medicare reforms and stabilization affect that problem, which appears to be growing?

THE PRESIDENT: Let me, first of all, describe what the problem was. When we passed the Balanced Budget Act we agreed with the Republicans we would try to achieve a certain level of savings in the Medicare program, which funds nursing homes and hospitals and home health and all that.

We then produced, from our health care experts who deal with all the providers, the list of changes we thought were necessary to achieve that level of savings. The Congressional Budget people said they thought it would require more changes than that. So under the law we had to do it. They didn't do this on purpose. What happened was they cut more than was necessary, they realized much bigger savings than they estimated. To that extent, our surplus is larger than it otherwise would be.

And we believe that it is mostly because we did too much that some of our nursing homes and hospitals and other programs are in trouble. And what I have done in extending, in taking the savings of the Balanced Budget Act from '97 out another 10 years, we have taken out of that some of the things we put in last time. And we have also set aside a fund of $7.5 billion that can be allocated by Congress to the hospitals and the nursing homes that have been particularly disadvantaged by this, to try to alleviate this quite difficult financial situation a lot of them found themselves in.

Q Much of the discussion here in Lansing concerned the prescription program that so featured part of your Medicare stabilization program. I have not, in all my reading and listening, been able to discern too much opposition to that. Have you?

THE PRESIDENT: Well, I think there's opposition -- the only opposition I'm aware of now is there are some in the Congress who are opposed to it, who say that -- mostly the Republicans who want to use the money for the tax cut -- they basically say, well, two-thirds of our seniors already have drug coverage. But as I pointed out today -- we produced our report today -- only about 24 percent have really good private sector drug coverage related to their former employment. The other coverage -- either they don't have coverage at all, a third of them don't have any coverage; and the rest of them have coverage that's too expensive and too unreliable and is shrinking every year. Some of them have coverage that has $1,000 ceiling. And the most rapidly growing drug coverage has a $500 ceiling. Well, for people with drug problems, you know, if they have $2,000, $3,000, $4,000 worth of bills every year, that's not much coverage.

So we think that -- this is a purely voluntary program, but we think that people ought to have another choice. They ought to have the option to have more adequate drug coverage at a considerably lower price than you get in the Medigap policy. Medigap is just too expensive. And it also goes up as people get older. And the older you get, the less able you are to pay, normally, and the higher the premium is. So I feel that this is quite a good thing to do.

Q Speak to the fears of the people who say, if this prescription drug program comes in, my company will cut drug prescription benefits.

THE PRESIDENT: Well, we were concerned about that, because the 24 percent that have this drug coverage already, some of them actually have programs that are more generous than the one we're offering and we don't want to mess that up. So we have offered, as a part of this program, quite generous subsidies to employers to continue such programs. And I think actually it might be that more employers will be willing to provide this coverage.

What's happening now is these employers are dropping this coverage like crazy, right now -- they're dropping it anyway. And so what we want to do is to give incentives for them to keep it and then to add it back if they've dropped it. This will not aggravate this problem; this will make that problem better -- however bad or good it is, it'll be better after this because it's totally voluntary, but the employers will have no financial incentives to drop it and put their people on the Medicare program because they're going to get direct subsidies from Medicare to keep what they've got.

Q As we'll hear in just a moment, we're going to hear from some of the folks who were at this meeting in Lansing, the people from the audience and their stories. As you said in the presentation, those who criticize stories as ineffective don't know America, we are a collection of stories.

It seemed to me that since this is your last year in the presidency -- and, as you say, you're not running for anything -- President Carter had the

Habitat for Humanity, what are the chances that President Bill Clinton, after he's President, will focus on health care reform and health care issues as your next job?

THE PRESIDENT: Well, I think it's one of the things that I will do. I've tried to bring this country together politically, economically, socially, across racial and religious lines. And one of the things that I expect I will be doing is to use the center that I will establish at my library to try to find ways to close the gaps in the fabric of our American community, including the health care gaps. You know, I care a lot about it.

But I think it's very important that we recognize we can do a huge amount in the one year and five months I have left. It would be a big mistake for us to all check out here. Or, a year and six months we've got left.

Q You don't seem to be checking out.

THE PRESIDENT: No, I think we ought to bear down. I tell my friends in the Congress all the time, I say, you know, we still get a check every two weeks. People are paying us. We need to show up for work. There will be an election and time will take care of all the rest of this and then we'll all go on about our business and do other things.

But, it's funny, sometimes the pressure of an election -- a lot of people have forgotten this, but in 1996 we passed welfare reform with overwhelming bipartisan majorities in both houses, we passed an increase in the minimum wage, we did two or three other big things in '96. In '98, at the very end of the 11th hour we passed a budget that provided for a down payment on 100,000 teachers to take class size down to 18 in the first three grades. And we've already funded almost a third of them. I mean, this was a huge deal.

So if we all just stay in harness here and focus and show up for work everyday, good things can happen.

Q You said here in Lansing that you want the debate to be harmonious, you want it to be civil, you want it to be intelligent and we hope it will remain this way on this program. We thank you for contributing to that atmosphere and the information and inspiration you've given us today. Thank you very much for being on Prime Time.

THE PRESIDENT: Thank you very much, I'm delighted to be here. Thank you.

END 2:35 P.M. EDT

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RECORD TYPE: PRESIDENTIAL (NOTES MAIL)

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

CREATION DATE/TIME:27-JUL-1999 23:21:23.00

SUBJECT: capital per hour

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

TEXT:
Option 1 (preferred): The extrapolation through 1998 doesn't use any forecasted values, but uses extrapolated values for the capital stock based on investment in 1998.

Capital per hour grew at a 1.8 percent annual rate from 1994 to 1998, up from just 1.2 percent per year during 1990-1994.

Option 2: The following statement is based on my extrapolation for 1998 and my forecast for 1999, based on what we know about investment and hours growth in 1998 and 1999:Q1.
We estimate that capital services per hour grew at a 2.4 percent annual rate from 1994 to 1999, up from just 1.2 percent per year during 1990-1994.

Option 3:
The following statement is based on official BLS data only,
Capital per hour grew at a 1.4 percent annual rate from 1994 to 1997, up from 1.2 percent per year during 1990-1994.

RECORD TYPE: PRESIDENTIAL (NOTES MAIL)

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

CREATION DATE/TIME:29-JUL-1999 14:46:05.00

SUBJECT:

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:
fyi, here's latest q&a on tax cuts, post greenspan testimony

Q: Alan Greenspan has said that he prefers cutting taxes to spending the surplus. Isn,t it clear that he belives that the best approach is the Republican tax cut) not the President,s plan to spend the surplus?

A:

Alan Greenspan has repeatedly advocated holding off on a tax cut. As recently as yesterday, Greenspan said, &(my first choice, as I've indicated previously, is to reduce the debt8 and &It's precisely that imprecision and the uncertainty that is involved which has led me to conclude that we probably would be better off holding off on a tax cut immediately(.8

The President has proposed more fiscally responsible &First Things First8 approach which pays down the debt, strengthens Social Security and Medicare, and invests in key priorities like education.

A responsible family doesn,t plan a big vacation without figuring out how to pay for food, clothing, and their mortgage when they get back. Likewise a responsible federal government shouldn,t spend all the surplus on a tax cut without ensuring that adequate resources are available to strengthen Social Security and Medicare and invest in key priorities like education, public safety, environment.

Background:

Greenspan Quotes from his testimony before the Senate Banking Committee on July 28

MR. GREENSPAN: Mr. Chairman, as I have said previously, there are two sides to this surplus forecast; namely, the one that you raise, which very significantly questions whether it will be there, but there's a range of error on both sides. I mean, it is conceivable -- I don't say it's the most likely by any means -- but I can perceive of a situation in which productivity continues to accelerate beyond our expectations, and that would engender significantly higher taxable incomes, and we may end up with offsets of that sort.

It's precisely that imprecision and the uncertainty that is involved which has led me to conclude that we probably would be better off holding off on a tax cut immediately, largely because of the fact that it is apparent that the surpluses are doing a great deal of positive good to the economy in terms of long-term interest rates, in terms of the cost of capital and the ability effectively of the American government to borrow when it has to, because as we reduce the amount of debt outstanding, the borrowing capacity of the federal government rises, which is a very important long-term issue relevant to the question of inflation, especially when we have such large contingent liabilities overhanging us because of unfunded liabilities in the Social Security, Medicare and especially -- in addition, the civil service fund. I conclude, as a consequence of this, that we should be cautious in the beginning, and I think no problem in delay.

I have also said, however, that should it appear that what is occurring is an endeavor to build up irrevocable spending programs to -- financed by a surplus which is dubious, I think is the worst of all possible outcomes because we have very large expenditure projections that will occur in the 10-year time frame as we get a dramatic increase in the number of retirees and an aged population. And I think that caution is very important in this area.

And while I certainly support tax cuts, if it looks as though the surplus will be spent, it is far better to remove that tinder, if I may put it that way, by cutting taxes fairly quickly, but I hope that that's not what the ultimate conclusion will be.

MR. GREENSPAN: Senator, my first choice, as I've indicated previously, is to reduce the debt. My second choice is to reduce taxes, basically because if we find that we are -- we cannot prevent ourselves, in one form or another, from spending the surplus, we are going to end up with rising spending which will require rising taxes as a percent of taxable income and there is a limit to how far that can go before it impedes economic growth.

So I very strongly would argue against using the surplus for new expenditure programs and if that, indeed, appears to be forthcoming, I would favor tax cuts, even short-term, because they are -- they would be far less a concern on what would happen to the economy over the longer run than were we to go the expenditure route.

But my first preference is, indeed, to reduce the debt as much as we can in as short a period as we can.

Roth Tax Cut

1. The Washington Post today reports that Senator Roth,s tax bill, because it has different components favoring lower and middle income taxes, is the basis for a deal. Is it?

Nothing could be further from the truth. As the President has made clear time and time again, a tax cut of nearly $800 billion would leave nothing to extend the life of Social Security or Medicare, provide a prescription drug benefit or provide even minimal funding for the basic programs of government we depend on --- programs for education, the environment, veterans, law enforcement, medical research, and more. [In fact, that tax cut is so large, and drains resources so greatly, that by the year 2009, it will require cuts of roughly 50% in the governement,s domestic discretionary programs. This is simply unthinkable.]

The President believes that we can have a tax cut. His own program puts forth a tax cut of $250 billion in the form of USA Savings Accounts and is part of a balanced plan that provides for extending the solvency of Social Security and Medicare, provides a long overdue prescription drug benefit, reduces the national debt to the point that it is eliminated by 2015, and also provides funding for the government,s domestic programs.

Any tax cut has to be part of a balanced plan, that also meets these needs. There is no question that this is this is NOT the basis of a deal. It is simply too large. The components of it, even if they are somewhat different from the House bill, don,t change the fact that this tax cut is simply a non-starter.

The President will veto a tax cut of $800 billion, he will veto a tax cut of $500 billion, and the burden is on anyone who suggests a tax cut in the rangeof $300 to $500 billion to explain how they will meet the tests.

Q. The House passed their tax plan for $792 billion and the Senate will be debating their $792 tax cut plan starting today. Will you compromise with the Republicans on a tax cut package? And if you do, what number will you accept?

A. We need to take care of First Things First. I have put forth a balanced plan that meets the long-term needs of Social Security and Medicare, provides for a prescription drug benefit, provides tax relief for middle income Americans through USA Accounts and provides for defense spending to keep the nation,s military readiness first-rate while funding education and our other domestic needs.

The core of my plan is a commitment to use our surplus to pay down our debt and save to meet the enormous challenge of protecting Medicare and Social Security for future generations.

The Republican plans moves in the opposite direction. Instead of saving our resources to meet the challenge that we face, their plans explodes the cost of the tax cut so much that it threatens our nation,s ability to save in order to meet our Social Security and Medicare needs of the 21st century.

Indeed, in the second decade, just at the time our nation first confronts the demographic challenge of the baby boom; just at the time when the Social Security,s Trust Fund is first under strain; just at the time when the Medicare Trust Fund is projected to become insolvent, the Republican tax cut would explode and drain an unimaginable $3 trillion.

If instead of paying down our debt, we allow for an exploding tax cut to drain $3 trillion of our savings, we will not only threaten the fiscal discipline and economic stability that has recently blessed our economy, we will threaten our ability to find the resources to keep Medicare and Social Security strong for the next generation.

Would you consider a compromise of the $500 billion tax cut proposed by Senator Breaux and others?

A: I have yet to have it demonstrated to me how the $500 billion dollar tax cut that some Members are supporting can meet my goals of providing for Social Security and Medicare solvency and providing for realistic levels of defense and discretionary spending. A $500 billion dollar tax cut crowds out these essential priorities.

Q. Could you support some of the elements of the Senate tax cut plan?

A. I,m not going to get into a discussion of the tax bills one provision after another. We need to take care of First Things First. I have put forth a balanced plan that meets the long-term needs of Social Security and Medicare, provides for a prescription drug benefit, provides tax relief for middle income Americans through USA accounts and provides for defense spending to keep the nation,s military readiness first-rate, and adequately funds education and our other domestic needs.

Any tax plan of a size that takes up the entire on-budget surplus, doesn,t do a thing for the long-term solvency of Social Security and Medicare, and would leave dramatic cuts in the discretionary areas of education and health care is not something that the I could responsibly sign.

Q: There have been reports that your plan pays down less publicly held debt than the Republican,s plans. How do you respond?

A: Unfortunately, CBO used a distorted analysis to legitimize the Republican,s exploding tax cut plan as good for debt reduction. Even though the House Republican tax cuts consume nearly the entire non-Social Security surplus and costs over $3 trillion in the second ten years, CBO portrays the House Republican tax cut plan as contributing to debt reduction. They do this by assuming a budget that would require cuts of roughly half of all domestic funding. At the same time, CBO rewrites my budget by ignoring over $300 billion in debt reduction saved to extend Medicare solvency.

In addition, CBO failed to recognize that my budget reduces publicly held debt in order to extend Medicare. After accounting for the prescription drug benefit, that means that $328 billion will be used to pay down the debt held by the public. CBO, however, chose to resolve baseline differences by simply not counting the debt reduction.

RECORD TYPE: PRESIDENTIAL (NOTES MAIL)

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

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SUBJECT: CNBC

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:
Janet. Your CNBC interview will start at 5:35 pm today. We should be out there about 525 or 530. It will be live.

they will likely focus on the following
1) today's numbers - GDP/ECI
2) your view on the economy, interest rates et al
3) transition to martin baily
4) your future plans.

the interview will be conducted remote from NJ. it will be part of CNBC's market wrap show.
it will likely be 3-5 minutes.