FOIA MARKER

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

Collection/Record Group: Clinton Presidential Records
Subgroup/Office of Origin: Speechwriting
Series/Staff Member: Michael Waldman
Subseries:

OA/ID Number: 13649
FolderID:

Folder Title:

Stack: S
Row: 92
Section: 3
Shelf: 5
Position: 2
This is not a presidential record. This is used as an administrative marker by the William J. Clinton Presidential Library Staff.

This marker identifies the place of a tabbed divider. Given our digitization capabilities, we are sometimes unable to adequately scan such dividers. The title from the original document is indicated below.

Divider Title: J
MEMORANDUM FOR THE PRESIDENT
FROM: ROBERT RUBIN
SUBJECT: G-7 JOBS CONFERENCE OVERVIEW

This memo provides an overview of the G-7 Jobs Conference and related activities as well as themes your administration will emphasize in conjunction with the conference.

FORMAT AND AGENDA

In keeping with the G-7 practices, the conference sessions will be closed to the press and public to allow a frank and substantive exchange of views. However, your speech opening the conference and the closing press conference will all be covered by the media. Delegations will be free to brief reporters after each session concerning their presentations, and the four US co-chairs will provide a full briefing after the Monday sessions.

The four Chairs will lead the following session topics:

- Laura Tyson – The World Employment Problem
- Secretary Bentsen – Creating Employment Opportunities in the Global Economy
- Secretary Brown – Technology, Innovation, and the Private Sector
- Secretary Reich – Labor Markets, Investment in Human Capital, and Social Safety Net

Vice President Gore will host and address a working dinner for the ministers on Monday night. He will also attend the conference sessions but will make no presentations. I will chair a working lunch on the second day of the conference, which will build on earlier discussions and enable ministers to share country experiences as they focus on lessons learned and identify next steps. After this session, Secretary Bentsen will present a Chairman’s Statement summarizing the conference, which will be followed by a closing press conference.

Though the statement is not a formal policy communique, we have proposed a few small initiatives to give substance to the broader message of the conference. They will also provide a hook to discuss jobs and growth with your summit colleagues in Naples. They include:

1) **develop a joint G-7 set of employment principles** which would frame economic and social policies toward unemployment and job creation;
2) **publish a short volume of innovative stories** from each country detailing an employment program or reform that shows governments can help respond to the problem;
3) **Set up a task force on the information**
economy to analyze the pervasive effects of information technology, and the policy issues it raises; 4) pursue a joint data initiative on job creation and job loss to understand and respond to the tremendous structural changes remaking our economies; and, 5) agree on a work-study program on training where each country could send a team of employment experts to observe and learn about the employment and training programs of the other.

Most countries are interested in working on employment principles, and some have already sent us their innovative stories. There is interest in the information economy and job creation/job loss ideas, but most feel we should ask the OECD to pursue this (acceptable to us). The training program has attracted strong positive interest too. We will seek final agreement on these initiatives at the conference, and perhaps reference them in the concluding Chairman's Statement.

DELEGATION PERSPECTIVES

The conference will reveal differences in opinion among the G-7, particularly on how to respond to change, with some, such as France, more sympathetic to protection and others, like Britain, more in favor of free markets.

The G-7 countries are coming to Detroit interested in novel approaches to the common and politically sensitive problem of unemployment. The conference represents a deepening of the G-7 agenda beyond the abstract macroeconomic and financial issues that have been its staple. Through the conference you are pushing the G-7 to deal with the detailed structural economic issues that affect the every day worker. The number one issue at the Naples summit will not be cold war issues of the past, but growth and jobs in the 21st century economy. The conference will give all participants a chance to pursue these issues at Naples.

On the other hand, the G-7 ministers are wary that the message (and press stories) coming out of the conference might be at odds with their own domestic agendas when they return home. With unemployment almost 12% in Europe and at a recent high in Japan, this is the single biggest issue. They recognize that the conference will not provide a magic solution and could put the spotlight on their own high unemployment and the poor performance of their economies.

The G-7 have sent delegations of their senior cabinet members to demonstrate to their own disgruntled electorate that they too care about jobs. They hope the conference will show that it is not their administrations which have failed to create jobs, but it is a larger problem shared by all of the industrialized world. They are also looking for political cover to push their own, sometimes unpopular, reforms at home.

You will have a chance to meet privately with the G-7 ministers, over breakfast (at the Westin Hotel) before the speech. They will be coming with their own agendas.

- Britain wants to use the conference to validate their own free market labor reforms which have angered the unions. They also see the G-7 as a more sympathetic forum to take on the EU (Delors) White Paper approach which they see as too interventionist and expensive.
- **France** is, on the other end, often seeking to block market forces when they force painful economic adjustment on the French public. The Balladur government has taken tentative steps to make their rigid labor markets more flexible, but has been met with strikes and protest. Because of this sensitivity, their ministers wanted a dominant role at the conference. French protectionist proposals and accusations of "social dumping" worry others.

- **Germany** is somewhere between Britain and France when it comes to free market policies. It has the lowest unemployment of the European G-7, but also the highest labor costs. Germany is worried that its generous social programs and regulated labor markets leave it poorly equipped to compete. They want the conference to validate their plans for structural reforms to reduce unemployment, especially with 17 elections this year. They are leery of pressure from the G-7 for macroeconomic expansion via German interest rates cuts.

- **Japan** will have primarily a defensive agenda. They are worried that the Europeans, especially the French, will argue that Western unemployment is due to unfair practices in Japan and Asia. Our bilateral impasse over the Framework and recent Super 301 announcement leave them uneasy, especially in Detroit which in Japan has special significance given our auto trade deficit. Their economic ministers chose not to come primarily due to domestic political needs, but in part due to this uneasiness. They will push for a pro–free trade message.

- **Canada** is generally sympathetic to our views. For the new government, the jobs conference is their ministers' first "coming–out" on to the international stage. As with the other G-7, they hope the conference will validate their own structural economic reforms (a huge budget deficit blocks action on the macroeconomic side) and demonstrate to their public they are "doing something" about unemployment.

- **Italy** hosts the following Naples summit and supports the conference as teeing up an important issue for them. Italy shares Europe's problems of high unemployment, generous social support, and rigid labor markets. Despite impressive innovation and a more dynamic private sector, especially from small and medium size business, they sometimes follow French protectionist and other interventionist government approaches. Parliamentary elections two weeks after the conference, heighten their political concerns.

- **The European Union** has led a year long policy exercise centering on their White Paper guided by President Jacques Delors. The EU delegation will try to steer discussion back to the EU agenda in the white paper. French and Italian support for the paper, will be contested by Britain and to a lesser extent Germany, which objects in part to controversial billion dollar infrastructure spending plans. Delors, whom you invited to attend, cannot come as EU enlargement negotiations require his intervention.
YOUR MESSAGE AND THEMES

The overall objective of the conference is to enable these industrialized nations — all facing a common problem of stubborn unemployment in the context of an increasingly global economy — to learn from each other's experiences. Delegations will share successes and failures in the effort to identify policies that will create good jobs by expanding economies, opening markets, increasing productivity, training and educating workers, and improving the functioning of labor markets.

The meeting itself is an important part of your message because you are showing global leadership by bringing this international, interdisciplinary group together to wrestle with a difficult, modern problem. At the same time, it is also an opportunity to convey to the American people that you do have an agenda for creating good jobs.

In elaborating on this, you and the conference delegation will push the following ideas:

- At a time of rapid economic change, we cannot promote prosperity by erecting walls of protectionism; the only way to protect our middle class is to invest in our people, to give them the skills and opportunities they need to compete in open markets.

- Growth-oriented macroeconomic policies are essential to world employment; overly restrictive policies retard world employment growth and undercut structural reforms.

- Policies to improve the skills of the workforce are critical to meet the challenge of a rapidly changing economy and to develop a mobile workforce. Such policies include education and training, school-to-work transition policies, worker adjustment systems, lifelong learning programs, and reforms of public welfare programs.

- All of our firms must have the incentive and the means to innovate and use technology to create jobs.

- This conference is part of a historic development for the G-7, which is putting ever greater emphasis on economics and growth instead of cold war security issues.

- It is significant that the conference is being held in the industrial Midwest, which suffered many of the maladies now experienced by other industrial nations and has learned how to be competitive in international markets.

OUTREACH EFFORTS

Since other G-7 nations insisted that broader conference participation — including leading academics, business and labor leaders, for example — would prevent candid discussion, your administration has consulted with these groups and others through pre-conference outreach meetings. (See attachment A.)

Acting on your suggestion of early January that we solicit a wide range of views from opinion leaders and experts prior to the conference, the relevant departments and the NEC
have coordinated outreach efforts to a substantial number of constituencies, opinion leaders, and experts, including briefings for the House and Senate, and a special briefing for members of the Michigan delegation.

**Outreach to Labor** — In addition to his meetings at the AFL-CIO annual meeting in Florida on February 22nd, Secretary Reich met last week with a group of G-7 labor leaders, convened by Lane Kirkland, to discuss the issues that will be addressed at the conference. Subsequently, I also met with Kirkland and his colleagues, and we had a productive discussion about a number of economic and policy concerns. We agreed to continue meeting on a regular basis to exchange views.

Regarding the jobs conference, Kirkland praised the Administration's recognition of unemployment as a critical issue, but he strongly disagrees with those G-7 ministers who, in his view, wrongly blame worker protection standards and policies for retarding economic growth and job creation.

**Department Outreach** — Secretaries Bentsen, Brown, and Reich have been conducting jobs conference–related meetings with trade association executives, business leaders, academics, labor leaders, and civil rights/community leaders. They also have incorporated conference issues and themes into their presentations before a variety of audiences.

**White House Outreach** — I hosted a series of three small discussion/dinners to address specific issues (such as black male unemployment, related to jobs creation in the global economy). I plan to continue holding topical dinners after the jobs conference as a means of soliciting new ideas and differing perspectives on substantive policy matters.

**Congressional Outreach** — The NEC organized three separate congressional meetings to discuss the jobs conference. John Dingell hosted the first one, for the Michigan Delegation. Dick Gephardt hosted the second one, which was bi–partisan. Sen. Daschle hosted the third, with Senate Democrats, in conjunction with the weekly Democratic Policy Committee luncheon. The two offers we made through Senator Dole's office to meet with interested Senate Republicans about the jobs conference have gone unanswered.

The Administration was represented at the congressional briefings by: Secretary Brown, Secretary Reich, Alan Blinder, Larry Summers, and other senior officials. Such extensive consultations with Congress are rare in advance of G-7 meetings, and our willingness to reach out in this fashion was well–received on the Hill.

**ATTACHMENTS**

The other attachments include a conference agenda and general talking points for the conference.
ATTACHMENT A
G-7 Jobs Conference Outreach Participants

NOTE: In addition to the participant names listed here, dozens of others were invited to meetings but were unable to attend.

NEC/White House Outreach Dinners

1. February 24, 1994 dinner re: black male unemployment:

Richard Freeman, Harvard University
Harry Holzer, Michigan State University
Ronald Mincy, Ford Foundation, NY
Hugh Price, Rockefeller Foundation, NY
Secretary Brown
Larry Katz, Chief Economist, Department of Labor
Bernard Anderson, Asst. Secy, Employment Standards Admin., DOL
David Ellwood, Asst. Sec'y for Policy & Evaluation, HHS
Carol Rasco
Bill Galston
Gene Sperling
Paul Dimond

2. March 3, 1994 dinner:

Bill Lynch
Jesse Jackson
Felix Rohatyn
Secretary Cisneros
Secretary Riley
Roger Altman
Ricki Seidman
Joe Stiglitz
Larry Katz
Bo Cutter
Gene Sperling

3. March 10, 1994 dinner:

Woody Brock
Michael Porter
Rich Trumka
Lester Thurow
Secretary Reich
Laura Tyson
Leon Panetta
Gene Sperling
Larry Katz
Secretary Brown has met with:

Association Executives:

Allan Arlow, Computer & Communications Industry Association
Andrew Card, American Automobile Manufacturers Association
Mary Condeelis, Bankers Association for Foreign Trade
Jay Copan, American Gas Association
Mike Cummins, E. Miller, Nat'l Center for Manufacturing Sciences
Don Fuqua, Aerospace Industries Association
Rob Hall, National Retail Federation
Brenda Jacobs, American Association of Exporters & Importers
William Lolber, National Alliance of Business
Malcolm Lovell, National Planning Association
James Mack, Association for Manufacturing Technology
Alan Magazine, Health Industry Manufacturers Association
John Mancini, American Electronics Association
Mary McCain, American Society for Training and Development
John Mizroch, U.S. Environmental Technology Export Council
William Morin, National Association of Manufacturers
Eric Nelson, Telecommunications Industry Association
Kevin Richardson, Electronic Industries Association
Barry Rogstad, American Business Conference
Stephanie Schoumacher, Council on Competitiveness
Harry Sheetz, American Institute of Aeronautics & Astronautics
Meredith Whiting, The Conference Board, Inc.
Marc Yacker, American Forest and Paper Association

CEO's:

Frank Borges, Financial Guaranty Insurance Company
Susan Corrales-Diaz, Integrated Systems
Frank Cruz, Gulf Atlantic Life Insurance Co.
Craig Fields, MCC
Delano Lewis, National Public Radio
Regis McKenna, Regis McKenna, Inc.
Kathryn Turner, Standard Technology, Inc.
Department of Labor Outreach Meetings

Secretary Reich has met with:

Academics/Labor/Public Policy Organizations:

Lawrence Mishel, Jeff Faux, Economic Policy Institute
Heidi Hartman, Institute for Women's Policy Research
Henry Aaron, The Brookings Institution
Marvin Kosters, American Enterprise Institute
Gar Levitan, Center for Social Policy Studies
Janet Norwood, The Urban Institute
Martin Bailey, McKinsey & Co.
Howard Rosen, Competitiveness Policy Council
Lisa Lynch, Tufts University
Ronald Miney, Ford Foundation
Steven Sleigh, International Brotherhood of Teamsters
Robert LaLonde, University of Chicago
Eric Wanner, Russel Sage Foundation
Alan Krueger, Princeton University
Hugh Price, The Rockefeller Foundation

Business CEOs:

Phillip Lippincott, Scott Paper
William Weiss, Ameritech
Robert Collins, G.E. Fanuc
Raymond Marlow, Marlow Industries
Richard Haworth, Haworth Inc.
Kavelle Bajaj, I-Net, Inc.

Civil Rights Leaders:

Ramkona Edelin, National Urban Coalition
Norman Hill, A. Phillip Randolph Institute
Rubie Coles, Women Work!
H. Art Taylor, OIC's of America
Delores Tucker, National Political Congress of Black Women
Hector Velasquez, National Puerto Rican Forum
Pedro Viera, SER Jobs for progress
Charles Kamasaki, National Council of La Raza
Eduardo Pena, League of United Latin American Citizens
Elvira Valenzuela-Crocker, MANA, A National Latina Organization
Ruth Pagani, National Puerto Rican Coalition
Brenda Gerton, National Council of Negro Women
Department of the Treasury Outreach Meetings

Secretary Bentsen has met with CEOs and representatives of:

American Forest & Paper Association
Boeing
Business Roundtable
Business Council
Economic Strategy Institute
Fleet Financial
Guardian Industries
Houston business delegation
National Association of Business Economists

Small Business CEOs:

Joe Baczko, JRB Sports and Outfitters, Inc., Boca Raton, FL
Phil Frost, IVAX, Miami, FL
Nathan Isikoff, Carey Winston Co., Bethesda, MD
Ron Krise, CTI Resources, Inc., Atlanta, GA
Jeffrey Linowes, President, The Ad Solution, Bethesda, MD
Mayo Shattuck, Alex Brown Inc., Baltimore, MD
Margaret Smith, First Score Securities, Santa Clara, CA
Alan Solomont, The ADS Group, Westin, MA
Outreach to Congress

Administration representatives: Secretary Brown, Secretary Reich, Bob Rubin, Alan Blinder, Larry Summers, Larry Katz, Lewis Alexander.

Congressional participants:

<table>
<thead>
<tr>
<th>House</th>
<th>Senate</th>
</tr>
</thead>
<tbody>
<tr>
<td>Barcia</td>
<td>Akaka</td>
</tr>
<tr>
<td>Camp</td>
<td>Baucus</td>
</tr>
<tr>
<td>Carr</td>
<td>Boxer</td>
</tr>
<tr>
<td>Conyers</td>
<td>Bryan</td>
</tr>
<tr>
<td>DeLauro</td>
<td>Conrad</td>
</tr>
<tr>
<td>Dingell</td>
<td>Daschle</td>
</tr>
<tr>
<td>Gejdenson</td>
<td>DeConcini</td>
</tr>
<tr>
<td>Gephardt</td>
<td>Dodd</td>
</tr>
<tr>
<td>Hamilton</td>
<td>Ford</td>
</tr>
<tr>
<td>Knollenberg</td>
<td>Glenn</td>
</tr>
<tr>
<td>Levin</td>
<td>Graham</td>
</tr>
<tr>
<td>Lewis</td>
<td>Hollings</td>
</tr>
<tr>
<td>Regula</td>
<td>Kennedy</td>
</tr>
<tr>
<td>Richardson</td>
<td>Levin</td>
</tr>
<tr>
<td>Serrano</td>
<td>Lieberman</td>
</tr>
<tr>
<td>Stupak</td>
<td>Mitchell</td>
</tr>
</tbody>
</table>

<p>| | |</p>
<table>
<thead>
<tr>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Robb</td>
</tr>
<tr>
<td></td>
<td>Sarbanes</td>
</tr>
<tr>
<td></td>
<td>Wofford</td>
</tr>
</tbody>
</table>
G-7 JOBS CONFERENCE
DAY ONE

9:00am-9:45  Welcoming of Ministers by the President
Location: The Westin Hotel

10:15 - 11:15  Presidential Address
Location: The Fox Theater

Motorcade to COBO Hall

12:00 - 2:00  The World Employment Problem,
CEA Chair Tyson, host moderator.
Location: COBO Hall, Room W1-51

- Why are we here: Weak global demand and increases in both
cyclical and structural unemployment. Relationship between
macroeconomic fundamentals and structural problems.

- Nature of the unemployment problem: Empirical overview;
what is happening in the economy and labor market.

- Theory and description of G-7 countries, including major
similarities and differences.

The first hour will be a formal session followed by lunch
in the conference room, where discussion may continue.

2:15 - 4:15  Creating Employment Opportunities in the Global
Economy, Secretary Bentsen, host moderator.
Location: COBO Hall, Room W1-51

Initial brief remarks by host moderator, followed by
presentations, after which floor opened to comments.

- Unemployment and protectionism.

- The interaction of structural reform and macroeconomic
policies.

- Public-sector spending, taxes, and employment.

4:15 - 4:30  Coffee Break
4:30 - 6:30 Technology, Innovation, and the Private Sector
Secretary Brown, host moderator.
Location: COBO Hall, Room W1-51

Initial brief remarks by host moderator, followed by presentations, after which floor opened to comments.

- Technology and innovation: how have these forces enabled job creation, reorganizing work, and industrial restructuring. How should governments regard these structural changes?
- Role of small and medium companies: do they play a unique role in economic growth and job creation?
- Infrastructure and R&D: appropriate area for government action? Relation to job creation.
- New potential for job creation: environmental technologies, and revitalizing inner cities.

8:00 - 10:00 Dinner Hosted by the Vice-President, Ministers and senior officials by invitation.
Location: Detroit Institute of the Arts, Rivera Court

DAY TWO

9:00am-11:15 Labor Markets, Investment in Human Capital, and Social Safety Net
Secretary Reich, host moderator.
Location: COBO Hall, Room W1-51

Initial brief remarks by host moderator, followed by presentations, after which floor opened to comments.

- Labor market institutions
  wage structure/flexibility
  bargaining institutions
  work rules
  high performance work places

- Human Capital
  school to work/vocational/apprenticeship
  skill levels and employer retraining
  active labor market policies/adjustment
  self reliance and community
  targeted investments to distressed areas
Social safety net and flexibility
unemployment, disability and pension benefits
incentive structures and mobility

11:15-11:30 Coffee Break

11:30-1:30 Closing Session: Working Lunch, Mr. Rubin host
Location: COBO Hall, Room W1-51

- Principles to guide employment policy
- Initiatives we could arrive at, either for today or to announce in Naples
- What has worked: lessons learned
- What has not worked: areas for further development
- Public education and public understanding

1:30 Press Conference (all ministers)
Joint photo session with presentation of the chairman's statement by Secretary Bentsen
MESSAGE TALKING POINTS FOR G-7 JOBS CONFERENCE

This working conference will discuss a common problem: creating jobs and combating stubborn unemployment in all the G-7 countries, in the context of an increasingly global economy. It will seek to learn from the experiences of the G-7 countries, and will share successes and failures in the effort to identify policies that will create good jobs by training and educating workers, expanding economies, opening markets, increasing productivity, and improving the functioning of labor markets. The objective is not to produce a set of new initiatives or structures. Rather, conferees will exchange ideas to improve how we think about the challenge of job creation and prepare for the 21st Century.

It will bring together the finance, labor, industry and economics ministers from the industrialized nations (the counterparts to Secretaries Bentsen, Reich, Brown and CEA Chair Tyson). It is an effort to deepen the mission of the G-7 from its traditional focus on finance and macroeconomics.

This will be the first G-7 conference devoted exclusively to the economic well-being of average citizens. As a new, post-Cold War economic order is created, this conference will focus the attention of governments on the need to ensure that working people are the beneficiaries of the emerging system.

The message of the conference to the American people is: we must embrace change and prepare for the jobs of the 21st Century. And economic change cannot leave anyone behind. We must make sure that the new world of expanded trade provides high-wage jobs to those men and women who built this country. All of our firms must have the incentive and the means to innovate and use technology to create jobs. And we must make sure that our young people garner the skills they need to prosper in this new environment. The Clinton administration fought hard for open markets in NAFTA and GATT. This conference should reassure our people that they have much to gain from expanded trade -- that change is something to embrace, not fear.

It comes at a time when the Clinton administration is making good on its promise to equip our workers to compete. At a time of rapid economic change, we cannot promote prosperity by erecting walls of protectionism; the only way to protect our middle class is to invest in our people, to give them the skills and opportunities they need to compete in open markets. Congress is finishing work on the "school-to-work" initiative, which will bolster apprenticeship programs, and the Goals 2000 education bill, which will establish national standards for educational excellence. And our new Re-employment Act of 1994 will convert the unemployment system into a reemployment and training system.

It is significant that the conference is being held in Detroit, in the heart of the industrial Midwest. The Midwest suffered many of the maladies now experienced by other industrial nations, and has learned how to produce better for the emerging export market. The region is coming back by reviving its manufacturing base. The American auto industry -- long buffeted by trade -- is thriving, putting employees back to work and making top quality cars in state-of-the-art factories.

Last year, President Clinton put in place economic policies that have sparked a real recovery and put our economic house in order. Interest rates are down, housing starts are up, confidence is high, and inflation is in check. In contrast to the deficit-driven recoveries of the 1980's, this period of growth is based on productive investment, not paper prosperity. This conference takes those successful policies a step further.
This is not a presidential record. This is used as an administrative marker by the William J. Clinton Presidential Library Staff.

This marker identifies the place of a tabbed divider. Given our digitization capabilities, we are sometimes unable to adequately scan such dividers. The title from the original document is indicated below.

Divider Title: K
MEMORANDUM FOR THE PRESIDENT

BREKKFAST WITH THE G-7 MINISTERS

DATE: March 14, 1994
LOCATION: Westin Hotel, Cabot Room (4th Floor)
TIME: 9:00 am
FROM: Bill Whyman, NEC and NSC

I. PURPOSE

This is your chance to meet with the G-7 ministers attending the jobs conference and share with them your ideas about unemployment and job creation. The official group photo will also be taken.

II. BACKGROUND

A background paper and talking points are attached.

III. PARTICIPANTS

Twenty ministers from the G-7 countries: Canada, the European Union (including two ministers from Greece), France, Germany, Italy, Japan, and the United Kingdom. Names and titles of ministers are provided in the attached background paper.

US participants: The Vice-President, Secretary Bentsen, Secretary Brown, Secretary Reich, CEA Chair Tyson, Assistant to the President Rubin, and Deputy National Security Advisor Berger.

IV. PRESS PLAN

Three pools sprays at the beginning of the meeting. There will be no question and answer session.

An official photo with ministers will be taken at the end of the event.

V. SEQUENCE OF EVENTS

- The US participants will arrive first (8:30) and greet the ministers from the G-7 countries, over coffee.

- You and the Vice-President will join the ministers, and move to the table for discussion.
- 2 -

- Once seated, three pool sprays will take pictures with you and the ministers at the table, and then leave.

- You will make remarks (attached), followed by a brief discussion with the ministers if you choose.

- A White House photographer will take an official photo of you and the ministers.

- You will depart for your speech at Fox Theater.

VI. TALKING POINTS, BACKGROUND, LIST OF MINISTERS ATTACHED
Breakfast with G-7 Ministers

Talking Points

- I want to personally welcome you to Detroit. Of course, the jobs conference is a ministerial, and I will not attend your following sessions.

-- However, before my speech, I wanted to talk to you about these critically important employment issues which confront us all.

- My original intention in calling for this conference, came from my experience at last year's Tokyo summit. At Tokyo it became clear to me that all of us are struggling to create jobs and lower stubbornly high unemployment levels.

-- We will be more successful if we work on this together.

- One way of looking at this is in terms of change and our ability to respond to it. How we as countries, as economies, and as individuals respond to change is a fundamental guide to the way we deal with unemployment.

- I know across my economic agenda -- whether its health care, international trade, or last week's introduction of my re-employment act -- the key question is how we deal with change.

- It's clear that in order to generate the growth we need, to create the good jobs our citizens deserve, and to have a healthy world economy, we need to increase our ability to respond to change.

- Yet it is also clear that our citizens are concerned and ill at ease -- and understandably so -- with all the changes that technology and the global economy increasingly bring to their front door steps.

-- We need to address these legitimate feelings of concern.

-- We need to communicate with our citizens and hold out a positive and credible plan to help them.

-- We need to develop better policies and programs that will produce more jobs and more growth.

- I hope over the next day and one-half, you will all have a lengthier discussion about change and how we as the G-7 can help our economies, our firms, and our workers adjust.
We need to deepen our current discussions of macroeconomic policy, and how they relate to the other structural reforms we are all pursuing.

All of us need to increase public support for free trade and investment.

We need to adopt technology and unlock its potential to improve our lives, but we must also retrain our workers and educate our young to use it fully.

And last but not least, we need to improve how our labor markets work so that our firms are productive and our workers have dignity.

Very shortly, I will be sharing with you and others some of my thoughts on this subject at my speech.

(Note: you may want to briefly preview your speech).

I am also interested in learning from you and your discussions. I know that I want growth and job creation to be on the top of the agenda at the Naples summit, when I get together with your heads of state in July.

At Naples we will want to carry on what you have started: to learn from each other, to share what has and has not worked, and for each of us to take that knowledge home and run better programs and policies.

So I wish you a productive and interesting day and a half. I know with my secretaries, they will at least be provocative. I urge you to take advantage of this opportunity and give us a good start for Naples.
BACKGROUND

BACKGROUND. Prior to your speech you will have the chance to warm-up over coffee with the G-7 ministers. The G-7 countries are coming to Detroit interested in novel approaches to a common and politically sensitive problem. With unemployment almost 12% in Europe and at recent highs in Japan, they welcome your leadership in bringing growth and employment issues to the center of the international economic agenda.

G-7 INTEREST. The conference represents a deepening of the G-7 agenda beyond the abstract macroeconomic and financial issues that have been its staple. Through the conference, you are pushing the G-7 to deal with the detailed structural economic issues that affect working people. The number one issue at the Naples summit will not be cold war issues of the past, but growth and jobs in the 21st century economy. The conference will give you a chance to pursue these issues at Naples.

G-7 CONCERN. On the other hand, the G-7 ministers are wary that the message (and press stories) coming out of the conference could be at odds with their own domestic agendas when they return home. Unemployment is the single biggest issue in much of the G-7. They recognize that the conference will not provide a magic solution and could put the spotlight on their own high unemployment and economies' poor performance.

The G-7 have sent their senior cabinet members to demonstrate to their own disgruntled electorates that they too care about jobs. They hope the conference will show that it is not their administrations that have failed to create jobs, but that unemployment is a larger problem shared by all of the industrialized world. They are also looking for political cover to push their own, sometimes unpopular, reforms at home.

THEIR AGENDA. Each of the G-7 is coming with its own agenda:

- Britain most closely shares our free market approach. They want to use the conference to validate their own free market labor reforms which have angered the unions. They also see the G-7 as a more sympathetic forum to take on the EU (Delors') White Paper approach which they see as too interventionist and expensive.

- France is on the other extreme, often seeking to block market forces when they force painful economic adjustment on the French public. The Balladur government has taken tentative steps to make their rigid labor markets more flexible, but has been met with strikes and protest. Given this sensitivity, French ministers wanted to dominate the conference agenda. French protectionist proposals and accusations of "social dumping" worry others.
Germany is somewhere between Britain and France when it comes to free market policies. It has the lowest unemployment of the European G-7, but also the highest labor costs. Germany is worried that its generous social programs and regulated labor markets leave it poorly equipped to compete. They want the conference to validate their plans for structural reforms to reduce unemployment, especially with 17 elections this year. They are leery of G-7 pressure for macroeconomic expansion via German interest rates cuts.

Japan is worried that the Europeans, especially the French, will argue that Western unemployment is due to unfair practices in Japan and Asia. Our bilateral impasse over the Framework and recent super-301 announcement leave them uneasy, especially in Detroit which in Japan has special significance given our auto trade deficit. Japanese economic ministers chose not to come in part due to domestic political needs, but in part due to this uneasiness. They are defensive and will push for a pro-free trade message.

Canada is generally sympathetic to our views. For the new government, the jobs conference is their ministers' debut on the international stage. As with other G-7 countries, they hope the conference will validate their own structural economic reforms (a huge budget deficit blocks action on the macroeconomic side) and demonstrate to their public they are "doing something" about unemployment.

Italy hosts the subsequent Naples summit and supports the conference as teeing up an important issue for them. Italy shares Europe's problems of high unemployment, generous social support, and rigid labor markets. Despite impressive innovation and a more dynamic private sector, especially from small and medium size business, they sometimes follow French protectionist and other interventionist government approaches. Parliamentary elections two weeks after the conference, heighten their political concerns.

The European Union has led a year-long policy exercise centering on the White Paper, under the guidance of President Jacques Delors. The EU delegation will try to steer discussion back to the EU agenda in the white paper. French and Italian support for the paper, will be contested by Britain and to a lesser extent Germany, which object in part to controversial billion-dollar infrastructure spending plans. President Delors, who you invited to attend, cannot come due to last minute negotiations over EU enlargement.
G-7 Ministers Attending the Breakfast

CANADA

Lloyd Axworthy, Minister of Human Resources Development and Minister of Western Economic Diversification. The senior of the Canadian Ministers attending the Conference.

John Manley, Minister of Industry. Interested in technological innovation and job creation.

Paul Martin, Minister of Finance and Minister Responsible for the Federal Office of Regional Development- Quebec.

Roy MacLaren, Minister for International Trade

THE EUROPEAN UNION (new name of the European Community)

The Commission

Hennig Christophersen, Vice President of the Commission. Christophersen, a former Economics Minister of Denmark, has the Commission lead on economic and financial affairs.

Padraig Flynn, Commissioner (Social Affairs and Employment). Flynn, Irish, has the Commission lead on labor issues.

The Council of Ministers (Greece currently holds the rotating presidency).

Viannos Papantoniou, Chairman of the ECOFIN Council, European Union Council of Ministers. Alternate Minister of the Economy of Greece. Papantoniou is the Acting Minister, as the Minister is gravely ill.

Evangelos Viannopoulos, Chairman of the Social Affairs Council, European Union Council of Ministers. Minister of Labor of Greece.

FRANCE

Edmond Alphandery, Minister of the Economy. The key economic issue he confronts is France's 12 percent unemployment rate, the highest in the G-7.

Michel Giraud, Minister of employment, Labor and Training. Open to new ideas and interested in US experience in job creation. May not attend conference unless given formal role as presenter.

Anne Lauvergeon, Deputy Secretary General of the Presidency. Lauvergeon is the only French official who reports to President Mitterrand, rather than to Prime Minister Balladur.
GERMANY

Guenter Rexrodt, Minister of Economics. Member of Free Democratic Party, and firm believer in market economics.

Norbert Bluem, Minister for Labor and Social Affairs. Good ties to German trade unions.

Theo Waigel, Minister of Finance. Bavarian Christian Democrat, and believer in conservative fiscal/monetary policies.

ITALY

Piero Barucci, Minister of the Treasury. Wants to ensure Jobs Conference results factored into Naples Summit.

Gino Giugni, Minister of Labor. Interested in highlighting Italian success in creating jobs in small enterprises.

JAPAN

Chikara Sakaguchi, Minister of Labor. Likely the only minister from Japan attending. A member of the Komeito (Clean Government) Party, one of seven parties in Hosokawa's coalition.

Otohiko Endo, Acting Minister of International Trade and Industry. Previously, parliamentary Vice-Minister, but named "acting minister" so that he can attend. Elected Dietman (congressman) since 1990, member of Komeito party.

UNITED KINGDOM

Kenneth Clarke, Chancellor of the Exchequer. Possible future contender for Prime Minister.

David Hunt, Secretary of State for Employment. Interested in role of small/medium enterprises in job creation.
This is not a presidential record. This is used as an administrative marker by the William J. Clinton Presidential Library Staff.

This marker identifies the place of a tabbed divider. Given our digitization capabilities, we are sometimes unable to adequately scan such dividers. The title from the original document is indicated below.

Divider Title: L
Overall Views:

-- GOC believes Jobs Conference a useful initiative, and approves increasing attention given to employment issues. Supports the concept of melding macro and structural considerations.

-- PM Chretien's Liberal Party won last October's general election in large part due to voter dissatisfaction with economic and employment issues.

-- GOC believes economic stimulus measures would help ease unemployment, but given the debt and large budget deficit, does not feel able to bring this weapon into play in a significant way.

-- Likes the idea of highlighting promising tactics or strategies in the fight against unemployment, but is concerned about crowning them "success stories" for fear of generating expectations that can't be fulfilled.

-- Employment "Principles" might also run counter to the informal nature of the Conference.

-- GOC likes the notions of the Information Economy Task Force and the Work Study Program for Trainers.

Participants' Views

-- Lloyd Axworthy, Minister of Human Resources Development and the senior of the four Canadian Ministers in attendance, is especially interested in the problems of young job seekers. He seeks to revive the Canadian Youth Service Corps.

-- John Manley, Minister of Industry, is keenly interested in the relationship between technical innovation and job creation.

-- Dr. Chaviva Hosek, of Chretien's staff, will also attend. She has the rank of deputy ministers and is a key policymaker in the Chretien Administration. She was the main author of the Liberal's successful campaign platform, which emphasized employment.

-- Trade Minister MacLaren is likely to depart after participating in the session chaired by Dr. Laura Tyson.
European Union (EU): Objectives for Jobs Conference

Overall Views
-- Overriding goal to demonstrate EU leadership in forging solutions to serious problems within the EU of stagnant growth, flagging competitiveness and high unemployment.

-- White Paper is the main vehicle for achieving this perception of leadership, although the White Paper is not legally binding on member states.

o EU Commission's presentation may thus differ from the substance of member states' contributions.

-- Commission probably not enthusiastic about institutionalizing the Jobs Conference as a G-7 event.

Delors' Views
-- Delors is in the last year of his Commission presidency, and has been mentioned as a possible candidate for national office in France.

-- May emphasize the implications for social and employment conditions of the new information society.

-- Opposes "excessive" reliance on macroeconomic levers to recharge Europe's stagnant economies.

-- May favor "tax shifting" or reducing payroll taxes to encourage more hiring, and shifting the revenue burden to energy or other sectors.

Christophersen's Views
-- Will refute criticism of European macroeconomic policy, trying to find a middle ground between the Bundesbank's refusal to reduce short term interest rates more rapidly, and arguments that an interest rate stimulus is necessary to rekindle demand and job growth.

-- Will argue strongly that credible fiscal policy and wage moderation are the prerequisites for interest rate reductions. Believes that stimulative policies are not sustainable and will throw the EU off course in its quest for monetary and economic union.

-- Advocates structural reforms now, while political will exists.

Flynn's Views
-- Strong supporter of White Paper proposals on education, training, labor market and labor-cost reforms. Believes in life-long education, and more programs for disadvantaged.

-- Believes that non-wage labor costs in Europe should be reduced by reducing social security payroll taxes.
France: Objectives for Jobs Conference

Overall Objectives:

-- France has the dubious distinction of having the highest unemployment rate in the G-7. This high jobless rate has become a serious domestic political issue, which both halves of the "cohabitation" duo, Mitterrand and Balladur, must address.

-- Thus, while the French are supportive of the Detroit Jobs Conference as a novel approach to a complex problem, the GOF delegates need to show themselves to be active participants in critical sessions.

-- This may explain in part French complaints regarding some of the arrangements that have been made thus far with regard to lead participant status in certain sessions.

-- In general, the GOF has approved the activist approach to the unemployment program signaled in the EU White Paper, and have expressed general agreement with the U.S. Jobs Conference theme paper and its focus on the interaction between globalization of the international economy and employment.

-- The French Government has pushed the concept of elaborating more formally, in an international setting, the notion of "social dumping," or national competition for jobs/investment based on competitive wage rates and labor rules.

  o The GOF may raise the possibility of a Jobs Conference endorsement for new international research and proposals on trade and labor standards.

French Views on Specific Agenda Items and Proposals

-- Success Stories: The French are reserved on this, but not fundamentally opposed, although there is concern about how this would play in the media.

-- Employment Principles: Generally, the French oppose the concept of developing employment principles because they believe the principles will either be so general as to be meaningless, or so specific that G-7-wide agreement would be impossible.

-- Information Economy Task Force: Agree to discuss in Detroit, but believe follow-up work should be done outside of the G-7 process, probably in the OECD or ILO.

-- Job Creation/Job Loss Data: OECD or ILO should do this.

-- Work Study Program for Training Practitioners: A good idea and worthwhile to pursue.
Germany: Objectives for Jobs Conference

Overall Views:

-- Drive home to domestic audience, which will be voting in 17 domestic elections in 1994, the Government's serious concern about employment problems in Germany.

-- Avoid discussing macroeconomic stimulus as a way of creating jobs. Prefers to focus on structural issues affecting competitiveness, improving the functioning of labor markets and upgrading human capital.

-- Emphasize Germany's strengths, particularly in the field of human capital, where Germany invests heavily. While unemployment is high by German standards, particularly in the east, it remains relatively low by European standards.

-- Avoid creating new G-7 structures or committees; prefers to use the OECD for this purpose.

Participants' Views:

-- Finance Minister Waigel, of the Christian Socialist Union, the Christian Democratic party's affiliate in Bavaria, is generally conservative in his approach to economic questions, although the CSU has a constituency in labor.

  o Waigel will seek to avoid discussing the wider use of macroeconomic levers for countercyclical purposes, and will argue that Germany's current difficulties are structural in nature. Waigel believes a more expansive fiscal policy will undermine the objective of lower interest rates.

-- Economics Minister Rexrodt of the Free Democratic Party (classical liberal party opposed to government regulation), will likely emphasize the need for structural reform to improve competitiveness.

  o Rexrodt will likely emphasize the importance of a free and open global trading system in easing unemployment through economic growth. Views on trade and labor standards unknown, but may see such an initiative as protectionist.

-- Labor Minister Bluem leads the left wing of the Christian Democratic party and is a firm believer in the social market economy.

  o Bluem will not want to antagonize an important constituency, the trade unions, and will thus avoid discussing wages. Bluem will argue that the "social partners" (business and labor) should lead the way in discussing changes in wage structure.

  o May promote his own "action plan" to reduce unemployment, which adds elements of flexibility to the current part-time and low skilled job market.
GREECE -- Participation in G-7 Jobs Conference

General Background

-- Greece assumed the rotating presidency of the European Union's (EU) principal decision-making entity, the Council of Ministers, in January, and will retain this position for six months.

-- The presidency country presides at all meetings of the member states and serves as spokesman in dealing with countries on inter-governmental matters, including efforts to coordinate the foreign policies of the member states.

-- The Greek presidency has presented difficulties for other EU members, principally over the Greek Government's recent decision to impose an embargo against Macedonia.

Key Economic Issues

-- Greece's total public sector debt was 160 percent of GDP at the end of 1993. The public sector deficit is likely to exceed its target by a substantial amount in 1994 and may reach 18 percent of GDP.

-- The public sector controls 50-60 percent of the official economy, and the state controls a monopoly position in telecommunications, power and transportation. Approximately 75 percent of the assets of the banking system are held by state-owned or controlled banks.

-- State enterprises are over-staffed, generally characterized by low productivity and highly politicized. Labor markets tend to be rigid and non-wage costs are high.

-- Greece's economic reform program has been criticized by the EU Commission as inadequate.

Participants' Concerns:

-- Alternate Economy Minister Papantoniou manages the Greek Economics Ministry due to the terminal illness of the Minister. However, he is not granted much latitude by the Prime Minister.

-- He will probably not introduce any new initiatives or demonstrate great flexibility on key macroeconomic or structural issues. He will likely stress that reductions in labor market rigidities can only be pursued in the context of social justice.

-- Labor Minister Yiannopoulos has not expressed interest in reducing labor market rigidities in Greece. He has rather advocated returning to previous restrictions on service sector activities as a way of reducing part-time workers.
Overall Objectives:

-- The Italian Delegation, led by Finance Minister Barucci and Labor Minister Giugni, will work to ensure that the results of the G-7 Jobs Conference are factored in prominently into the upcoming G-7 Summit in Naples.

-- GOI officials reportedly satisfied with both substantive and logistical arrangements made for the Jobs Conference, and have denied a report in the local press to the contrary.

-- Italian Delegation likely to emphasize the significance of open and growth-oriented international trading system.

-- GOI likely to emphasize in interventions the importance of small and medium-sized enterprises in overall economic growth and in generating new employment opportunities. The relationship of employment to privatization of state-owned enterprises may also be a subject of interest to the Italian Delegation.

-- Italian government representatives have supported much of the substance of the European Union's White Paper on Jobs, Competitiveness and Growth.

Italian Views on Specific Agenda Items and Proposals

-- Success Stories: No objections raised to including success stories as part of the Conference proceedings. Italy's success story will be the agreements in 1992 and 1993 that moderated wages. A paper has been prepared on this topic.

-- Employment Principles: In conversations with U.S. Embassy Rome, Italian Government officials agreed to the drafting of a set of principles on employment to be considered at the G-7 Summit in Naples.

-- Information Economy Task Force: GOI Delegation can agree to the establishment of a Task Force on the Information Economy and a report to the G-7 Summit in Naples.

-- Job Creation/Job Loss Data Initiative: In discussions with Embassy Rome, GOI officials opposed the creation of a committee, arguing that the OECD has done excellent research and has the capability to carry out this work. The OECD option would work more efficiently than a G-7 Committee which would only meet periodically.

-- Work Study Program for Training Practitioners: Italian Government officials regarded this as not sufficiently concrete, and oppose it.
Japan: Objectives for Jobs Conference

Overall Views

-- Expects pressure from G-7 counterparts to take additional measures to stimulate its weak economy and thus reduce its huge trade surplus.

-- To counter this pressure, Japan will likely emphasize the importance of a recently-approved 15-trillion yen stimulus package, which includes 5.5 trillion yen in personal income tax cuts.

-- The GOJ Delegation may also present some modest proposals (not further specified) on employment at the Conference to head off criticism of Japan's large trade surplus as a drag on economic growth in other G-7 countries.

-- Japanese are also likely to stress the need for more flexible labor market policies as an appropriate response to employment problems.

-- Although Japan has experienced small and steady increases in joblessness, at 2.7 percent, its unemployment rate is by far the least troubling within the G-7.

-- Unemployment is an important political issue in Japan, but is not as explosive an issue as it is in North America and Europe.

-- Nevertheless, the slight by steady increase in monthly unemployment figures and large scale downsizing plans announced by several firms have had a significant effect on workers, in view of Japan's traditionally low rate of joblessness and the importance of "lifetime" relationships between workers and their employers.
UK: Objectives for Jobs Conference

Overall Views

-- Focus attention on need for labor market flexibility and broad-based deregulation.

-- Will express strong opposition to initiatives that in any way might be interpreted as endorsing trade protectionism as a solution to unemployment.

-- Believes Conference should avoid endorsing social policies that would increase the non-wage cost of labor or damage labor markets.

-- Clarke and others in UK delegation will probably oppose initiatives or commitments to endorse connecting trade benefits or relationships to labor standards.

  o The UK views connecting trade and labor standards as a step towards more protectionist trade policies.

  o The delegation might agree to an initiative on trade and labor standards that would be defined more narrowly, for example, concerning trade in goods made with child or prison labor.

-- Supports our general approach on the need for more rapid economic growth, although this is somewhat tempered by concerns about relatively large budget deficit, and the need to restrain inflation.

-- Will emphasize role of small and medium enterprises in job creation, and the need to develop more creative approaches to financing small business and encouraging entrepreneurs.

-- Major's Government has criticized the EU's White Paper on Employment, Competitiveness and Growth.

  o HMG questions whether there is too much emphasis on maintaining and even enhancing expensive social safety net programs.

  o At EU sessions in late 1993, HMG representatives expressed concern about expensive EU-financed public works-types programs as a solution for unemployment.

  o Will provide a paper that responds to the EU White Paper before or during the Conference.

-- HMG has generally opposed the concept of "tax shifting" especially if the effect would be to increase taxes on energy.

-- HMG is generally satisfied with substance and logistical arrangements thus far, and lead Ministers are pleased with their roles.
This is not a presidential record. This is used as an administrative marker by the William J. Clinton Presidential Library Staff.

This marker identifies the place of a tabbed divider. Given our digitization capabilities, we are sometimes unable to adequately scan such dividers. The title from the original document is indicated below.

Divider Title: M
Political Overview

- The Liberal Party government, elected last October on a job creation platform, has set the budget, jobs, and economic recovery as its priorities.

- The U.S.-Canadian bilateral relationship is played in Canadian public opinion as a domestic issue.
  -- Although the Liberals maintain personal distance from the U.S., they have not fundamentally altered close relations developed during ten years of Tory rule.

- Canada's budget and deficit restraints are forcing painful reassessment of the social safety net, of which the Canadians are proud and see as a defining national characteristic.
  -- Canadian health care is cited as a model for the U.S., but it has begun to take cuts along with other entitlements and programs.

- Canada is proud of its role in foreign affairs, for example in peacekeeping.
  -- Budget realities have forced a reduced presence in activities such as NATO and UN peacekeeping.

Politics of Unemployment and Growth

- Canadian unemployment is structurally higher than that in the U.S. due to generous unemployment benefits, high nonwage labor costs, and the high minimum wage.
  -- The spread between U.S. and Canadian unemployment rates has reached an all time high in the last few months as the Canadian recovery has yet to create jobs.

- Unemployment -- over 11% for many months -- contributed to the Tory election loss last fall.
  -- The 1988 Progressive Conservative government was elected on promises of job creation.
  -- Huge job losses after 1989 were blamed on the Free Trade Agreement, but they more likely reflected restructuring to boost lagging productivity. Canadian industry, which did not experience severe job losses in the 1982 recession, needed to reduce labor costs.
  -- The most important election this year, for Quebec provincial leadership, will be fought more over sovereignty, but economic conditions will also have an impact. Jobs will be a major issue when Ontario goes to the polls in 1995.
The single-minded Liberal campaign focus on job creation is now being couched in more balanced terms as the government faces budgetary realities.

In the February 22 budget speech, Finance Minister Martin said the government does not create jobs, it only creates conditions for the private sector to create jobs.

The new budget has several specific job-creation proposals:

- an infrastructure program designed for short to medium term employment creation;
- a Youth Service Corps to get school leavers into first jobs;
- tax incentives for small businesses to create jobs;
- tighter unemployment insurance eligibility to induce some recipients into jobs; and
- training programs revamped as "employment insurance" in which employers will either continually retrain workers or else be taxed for that purpose.

The new budget, for the first time since 1959, includes no increase in real spending as the GOC tries to get a handle on its fiscal deficit, which stands at 6.2 percent of GDP.

Many economists believe that deficit control will stop crowding in the credit markets and allow job-creating growth.

Canada's strict anti-inflationary monetary policy is believed to have worsened the recession. However, it has achieved near zero inflation for the foreseeable future.

With inflation beaten, Canada is ready to reduce interest rates.

Canada must maintain interest rates at or above U.S. levels to finance its deficit internationally, so U.S. anti-inflation interest rate increases might force Canadian rates up, hamper Canadian growth, and thereby limit job creation.
ITALIAN DOMESTIC POLITICAL SCENE

- Italy holds March 27-28 parliamentary elections following two years of domestic political renewal and massive kickback and corruption scandals. A political generation may be wiped out.

- PM Ciampi's technocratic government is still in place through elections, but lacks political capital for major new initiatives.

- The election campaign is shaping up as follows:
  
  -- A leftist alliance led by the ex-communist Party of the Democratic Left (PDS) took an early electoral lead.

  -- Media magnate Silvio Berlusconi's newly founded Forza Italia's conservative alliance with the regionalist Northern League and neofascist National Alliance has now surged to the front.

  -- A weak and divided center composed primarily of Mario Segni's Pact for Italy and the Italian People's party (the successor to the Christian Democrats) could hold the electoral balance. Approximately 25-30 percent of the electorate is still undecided.

- Parliamentary turnover in deputies could reach 50 percent, making decision-making initially difficult. Any new government would concentrate on constitutional and electoral law changes, public administration, and economic growth. New elections are predicted within 12-18 months.

THE POLITICS OF UNEMPLOYMENT AND GROWTH

- Italy experienced slightly negative growth in 1993, though exports boomed following the September 1992 lira devaluation.

- Inflation was under 5 percent; unemployment was over 10 percent (over 20 percent in parts of southern Italy).

- Major parties have vowed to continue PM Ciampi's fiscal austerity and privatization policies; this could involve dismantling huge, overstaffed parastatals -- employment fixtures in economically depressed southern Italy.
Both government and corporate restructuring plans have led to labor demonstrations and confrontations.

-- Labor unrest seems likely to continue if firms lay off workers because of privatization, restructuring, or productivity increases.

Unemployment has not become a campaign issue per se, but all parties are committed to a strong social net and reducing government outlays.

With inflation under control, all parties favor faster economic growth. Traditionally, growth has been generated by small to medium-sized export-driven firms.
DOMESTIC POLITICAL OVERVIEW

Since March 1993, France has been ruled by a "cohabitation" government. Socialist President Francois Mitterrand, entering the last year of his second seven-year term, concentrates on big-picture foreign policy and security issues but leaves day-to-day governing to Prime Minister Edouard Balladur, who is the standard-bearer of the center-right coalition that won the March 1993 legislative elections.

The center-right is composed of the centrist "Union for French Democracy" (UDF), under the leadership of former President Valery Giscard d'Estaing, and the neo-Gaullist "Rally for the Republic" (RPR), led by former Prime Minister and current Paris Mayor Jacques Chirac.

For most of 1993, cohabitation ran smoothly. Mitterrand and Balladur were determined to emphasize harmony as France prepared for the NATO Summit and entered the final stages of the Uruguay Round trade talks, which were politically explosive in France because of the farm lobby's opposition to cuts in agricultural subsidies. Balladur enjoyed high approval ratings throughout the year, despite a sluggish French economy. His popularity peaked in December as a result of the government's success in the Uruguay Round. Polls indicated that Balladur was the favorite center-right candidate for President in 1995, despite Jacques Chirac's strong claim on the nomination.

After the first of the year, cohabitation began to lose luster as Mitterrand stepped up criticism of Balladur's economic and social policies. At the same time, Jacques Chirac, worried that Balladur would wrest the presidential nomination from him in 1995, began to score Balladur for insufficient nationalism on trade, nuclear testing and other issues. As the economy failed to respond to Balladur's cautious stimulus measures, the Prime Minister's approval ratings dropped below 50% for the first time. Still, Balladur remains France's most popular leader.

U.S.-French relations are strong; our cooperation has increased since the end of the Cold War. The French believe a U.S. military presence in Europe remains essential to European security and are slowly increasing their participation in NATO. We worked closely with the French to formulate our proposals for the NATO Summit and joined with them in hammering out the NATO plan to end the shelling of Sarajevo. We cooperate with France on many regional crises (Iraq, Cambodia, Haiti, Algeria) and on
global issues such as counterterrorism and counternarcotics. Still, U.S. and French interests occasionally collide, due to competition in trade and lingering French concerns about U.S. domination of Europe.

THE POLITICS OF UNEMPLOYMENT AND GROWTH

- France's economy is now on a slight upswing, with 1994 last quarter economic growth rate at 0.2%. Overall 1993 growth was slightly negative.

- Unemployment is at a record 12.2%. It is particularly acute among young people and low-skill workers.
  
  -- Prime Minister Balladur is standing firm against union protests against a bill allowing sub-minimum wages for young workers.

  -- The Prime Minister's firmness contrasts with his November 1993 withdrawal of the GOF's planned reorganization of Air France in the face of union protests. (The reorganization called for an eventual reduction of 4,000 in the Air France work force.)

- Fear of increasing unemployment could frustrate the GOF's bold plan to privatize major state-run companies.

- High French labor costs fuel French concern about the influx of cheaper foreign products and the relocation of industries to countries with lower labor costs.
  
  -- The GOF has often emphasized that the developed countries must enact measures that will improve work standards in lesser-developed countries.

- On a number of occasions, the Balladur government has aroused opposition among trading partners by imposing protectionist measures under domestic pressure.
  
  -- In response to a violent strike by French fishermen, the GOF recently imposed a ban on fish from non-EC countries. On Feb. 12, the GOF lifted the ban, but announced an inspection regime that has severely disrupted U.S. imports of fresh fish into France. USG agencies are now considering the prompt imposition of 301 sanctions.

- The recent decline in Balladur's high approval ratings is primarily due to frustration over economic sluggishness and continued high unemployment. These issues promise to dominate the 1995 presidential election campaign.
GERMAN DOMESTIC POLITICAL OVERVIEW

-- The ruling coalition headed by Chancellor Kohl has been in power since 1982. National parliamentary elections will take place October 16, 1994.

-- Overall, there will be some 20 local, state and national elections in Germany this year, with a major regional test on March 13 kicking off the election season.

-- Polls show Germans' unhappiness with politicians of all stripes. Economic and social strains produced by national unification dominate the domestic scene.

-- Current polls indicate that the Social Democratic Party (SPD) may enter the government after the October elections, possibly in a "Grand Coalition" with Kohl's CDU.

-- The SPD is favored in large part because it is perceived as being better able to deal with Germany's record unemployment problem.

THE POLITICS OF UNEMPLOYMENT AND GROWTH

-- Germany faces daunting economic challenges as a result of unification.

-- Following a unification-induced boom in 1990-91, growth has stalled. The German economy contracted by nearly 2% last year and is projected to grow only around 0.5% in 1994.

-- Transfer payments to the new eastern states continue at almost $100 billion per year. To contain the inflationary pressure of these transfers, the Bundesbank has been maintaining high short-term interest rates.

-- Private investment in the new states has been disappointing.

  o Many companies are passing up the relatively high wages and complex regulatory environment in eastern Germany in favor of eastern European countries, e.g., Poland, Hungary, and the Czech Republic. Effective unemployment in eastern Germany continues at over 30%.

  o Germany has resorted to extensive retraining and make-work schemes in the east, but has found that these programs have not made a dent in eastern unemployment, given the collapse of manufacturing there. Funding for many such programs is being phased out.
Unemployment in Germany has now reached 4 million, a post-war record, and the figure is expected to increase through mid-year.

The unemployment rate of 8.8% for western Germany (but 17% for eastern Germany) compares favorably with the joblessness levels in other western European countries, and is well below the EU average.

But combined with the problems of integrating eastern Germany, it has contributed to a widespread perception of deep-seated economic difficulties.

Inflation continues to be a nagging problem, currently near 4%, and money supply growth continues to exceed the central bank's targets. Tax increases that went into effect at the beginning of this year (e.g., a gas tax increase of 40¢/gallon) may have a further depressing effect on domestic demand.

Despite some recent increases in export orders, Germany's export-led economy (30% of GDP is derived from exports) suffers from the prolonged recession in Germany's major European trading partners.

The German economy remains basically strong, however. The German stock market is at an all-time high, German firms are generally not facing serious financial difficulties and the current problems should be seen against the unusually strong growth in 1990-91 of 5.7% and 4.5%.

With overall public sector deficits now approaching 7% of GDP, there is limited scope for any fiscal stimulus to boost demand and pull the economy out of its slump.

Compounding these difficulties are concerns about Germany's international competitiveness. The Kohl government and industrial associations have called for wage cuts and increased working hours. Some recent wage settlements have been very moderate, notably in the chemical industry. Volkswagen has worked out a shortened work week at lower pay in exchange for employment guarantees for its workers.

On the other hand, the largest German union, the metal workers, is threatening to go on strike in early March.

The German government thus faces a difficult task in addressing unemployment, the single overriding domestic political issue.
GREEK DOMESTIC POLITICAL OVERVIEW

-- PASOK, led by PM Andreas Papandreou, staged a remarkable political comeback by winning 170 seats for a solid majority in Parliament in Greece's election in October 1993. New Democracy (ND), led by Mitiliades Evert, has 121 seats. Political Spring, an ND splinter party led by former Foreign Minister Antonis Samaras, has 10 seats and the KKE (Greek Communist Party) has nine seats.

-- Papandreou has dropped his old rhetoric about pulling Greece out of the EU and NATO, and since taking office has gone out of his way to show he wants a good relationship with the U.S. The President's invitation to meet in Washington on April 22 was well received.

-- The parliament will vote for a new president when Constantine Karamanlis's term expires in 1995. 180 seats are required to elect the president. If a candidate cannot garner 180 votes, parliament is dissolved and new elections are called. It is possible, therefore, this parliament will only last two years.

-- Papandreou's age and failing health have fueled speculation that he plans to serve as prime minister until 1995, the end of President Karamanlis' term, and then seek election as president. With 170 seats in Parliament, PASOK could forge a coalition that would allow the party to elect a president and serve out its full term in office.

-- There are also reports that Papandreou will call elections in the fall of 1994 to try to win at least 180 seats in parliament. This would provide PASOK with the votes needed to amend the constitution to restore some powers to the presidency and to elect Papandreou as president in May 1995, thus allowing Papandreou to serve as president without becoming a figurehead.

THE POLITICS OF UNEMPLOYMENT AND GROWTH

-- Papandreou governs a troubled country. The economy, the dominant issue in the last election, remains a disaster area. The government seems to have no serious economic plan and Papandreou has reversed or slowed some existing reform measures, including privatization.

-- Greece is dependent on transfers from the EU, which total about 6% of GDP, and there are rumblings in the EU about the state of Greece's economy and concern about its ability to meet Maastricht targets. There have been reports that the bond rating services will downgrade Greece's rating, which is now at the bottom of investment grade.
- 2 -

-- Greece's economy lags behind other EU members. In 1991, Greece's per capita income fell to the lowest in the EU, behind Spain and Portugal. It has a bloated state sector and a high fiscal deficit.

-- The economy has been stagnant. GDP has grown about about 1% annually since 1990. Unemployment is currently 9.5%, the highest in Greece's history. The fiscal deficit could exceed 14% of GDP and might reach 18% without corrective measures. Inflation fell 6% between 1990 and 1993, to about 14% at the end of 1993. The central bank governor has set a target inflation rate of 12% for 1994.

-- Greece's public sector deficit in terms of GDP is the largest in the EU. Public sector debt is 160% of GDP. Interest payments on the debt equal 38% of government outlays.

-- Greek-EU economic relations have been clouded by Greece's poor use of EU structural funds. Greece has spent a significant part of its EU money (Delors I) on current expenditures such as government salaries. The GOG expects to receive about 20 billion ECU's ($23.2b) between 1993-1999 from Delors II.

-- Before assuming the EU presidency in January 1994, Papandreou announced that addressing the unemployment problem in Europe would be a goal of Greece's term in the EU presidency. To date, Greece has not focused much attention on unemployment and other social issues in the EU.
DOMESTIC POLITICAL OVERVIEW

-- The ruling seven party coalition headed by Prime Minister Hosokawa has been in power since August 1993. It comprises a wide political spectrum, ranging from new parties made up of breakaway elements from the Liberal Democratic Party (LDP) to the Japan Socialist Party (JSP). The coalition is the first non-LDP government in Japan since 1955.

- The coalition has slim majorities in both houses of the Diet, the national legislature.

- PM Hosokawa continues to command high public approval ratings, although the 70 percent plus levels he enjoyed earlier in his term have dropped somewhat.

-- PM Hosokawa came into office pledging broad reforms, with political reform the key objective of his administration. The government has succeeded on political reform legislation, but has so far moved slowly on administrative reform, deregulation measures and decentralization of authority.

- Political reform legislation now being finalized will redraw the political map of Japan by creating 300 single member and 200 proportional representation seats in the Lower House, in place of a multi-member district system.

- Corporate campaign contributions will be restricted and stricter financial reporting requirements introduced.

- Hosokawa succeeded in pushing through political reform legislation in January 1994 only by entering into a compromise agreement with the opposition LDP, after some coalition members voted against the reform proposals.

-- Indicative of continuing disagreement among coalition members, on March 2 PM Hosokawa withdrew his plan to reshuffle his cabinet.

- Hosokawa met stiff opposition to the cabinet shifts from several coalition partners, especially Chief Cabinet Secretary Takemura, head of the small Sakigake party.

- The coalition is increasingly divided over how, or even whether, its various elements will cooperate or merge in order to contest the next election, generally expected sometime in mid-1995.

- Key coalition leader Ichiro Ozawa, and increasingly PM Hosokawa, believe that the new single member district system will put the opposition LDP at an advantage if multiple coalition candidates run in each district.

-- Forging the alliances that make up the country's new political organizations will probably span more than one election.
THE POLITICS OF UNEMPLOYMENT AND GROWTH

-- Japan's economy is in its most serious post-war downturn. Growth in 1993 was flat, and only modest improvement is likely in 1994.

  o 1994 likely will be the third consecutive year in which the U.S. economy grows faster than Japan's.

-- The economic slowdown helped push up its current account surplus to a record $131 billion in 1993, or 3.1% of GNP. Japan's global trade surplus reached $120 billion in 1993, and the bilateral surplus with the U.S. hit $59.3 billion, up from $51 billion in 1992.

  o U.S. exports to Japan in 1993 stagnated against 1992 levels, while imports rose approximately 10%.

-- Domestic demand generally has been weak. In the wake of the collapse of Japan's "bubble economy," many firms have substantial over-capacity, driving down private investment.

  o Banks are struggling with a large number of bad loans, especially to the real estate sector.

  o Industrial production was off by 4.5% in 1993.

-- GOJ monetary authorities have responded to the downturn by reducing official interest rates to historic lows. Inflation remained below 2.0% throughout 1993.

-- The latest unemployment figure for January 1994 was 2.7%, a decline of 0.1 percent from December, the first fall in the unemployment rate in more than a year.

  o Efforts to cope with unemployment in 1993 produced little beyond an expansion of existing programs, such as the "employment adjustment subsidy" (payroll subsidy).

-- Large-scale downsizing plans announced by major companies have had a strong psychological effect on workers, but employment has yet to become a significant political issue.

-- GOJ agreed in the U.S.-Japan Framework to reduce its external imbalances, support domestic-demand led growth and increase market access in order to achieve a highly significant decrease in its current account surplus over the medium term.

-- The government has proposed or enacted four fiscal stimulus packages in the last 18 months. They have had minimal stimulative effect.

  o The most recent, announced February 8, will cut personal income taxes, boost public investment spending, but may yield only a one point addition to GDP growth this year.
BRITISH DOMESTIC POLITICAL SCENE

-- John Major's government has been on a roller coaster ride since the April 1992 election, and is now in a downswing.

-- Major shored up his position late last year with a strong speech at the October Party Conference, followed by popular initiatives on crime and welfare reform.

- He finessed the deficit problem with a superficially attractive November budget, took heart from the gathering pace of economic recovery, and capped 1993 with a bold initiative on Northern Ireland.

- Polls showed the Conservatives inching up, though Labor maintained a sizable lead.

-- But has unraveled since Christmas.

- Sex scandals forced two ministerial resignations and undermined the moral high ground the Tories had captured with domestic initiatives.

- The popularity of the budget plummeted when analysts discovered that the government will take a higher percentage of the average taxpayer's income this year than did the last Labor government.

-- Major has been widely accused of betraying Thatcher's legacy, and of failing to provide leadership to a fragmented and unruly party.

-- Labor continues to chip away at the Tories on the two issues that cost it the last election -- taxes and trust.

-- Most importantly, the Conservatives are predicted to do badly in May local and June Euro-elections.

-- Other problems loom on the horizon. An inquiry into arms shipments to Iraq is nearing the end of its hearings, and could force ministerial resignations. Growing controversy surrounds allegations that the government uses development aid to "reward" nations which buy British arms.

-- Given the expectation of a poor showing in the May/June contests, no Tory challenger currently wants Major's job.

-- Chancellor of the Exchequer Kenneth Clarke, who will attend the Jobs Conference, is widely regarded in British political and press circles as a potential successor to Major.
THE POLITICS OF UNEMPLOYMENT AND GROWTH

-- Following two years of recession, the principal problem now facing British economic officials is how to sustain the UK's recovery without reigniting inflation or escalating the already high budget deficit, estimated at 5.3% of GDP in 1994.

-- With private consumption leading the recovery, the UK economy will be a relative bright spot in Europe, with GDP projected to grow by 2.5% in 1994.

-- Unemployment, however, remains high (though at a lower rate than in Canada, France, and Italy) at 2.8 million or 9.9% of the labor force.

-- Unemployment levels seem to be dropping more quickly than during previous recoveries, presumably reflecting greater flexibility in the UK labor market.

-- The rate of retail price inflation remained below 2.5% for all of 1993, the best inflation performance in 30 years.

  o However, wage gains averaged 3% last year--high for an economy with low inflation and double-digit unemployment rates.

-- Interest rates have fallen to a base rate of 5.25%, a level last seen in the 1960's, but real long-term rates are still too high for an economy operating below capacity.

-- The recovery also remains checked by depressed home prices (the UK owner occupancy rate is 70%), high household debt, imminent tax hikes, and the threats of higher wage demands and their impact on inflation.

-- While recent economic developments in the UK indicate stronger near-term growth prospects, the outlook for the UK's continental European trading partners remains grim.

  o France and Germany remain mired in recession, thus restraining intra-EU trade, which has a negative effect on economic activity in the UK.

  o Thus, British enthusiasm for closer economic integration and particularly monetary union is diminishing, at least until continental economies revive.

-- Major's government and the Conservative Party in general is divided on the issues raised by European union, including the Exchange Rate Mechanism and the Social Charter.
This is not a presidential record. This is used as an administrative marker by the William J. Clinton Presidential Library Staff.

This marker identifies the place of a tabbed divider. Given our digitization capabilities, we are sometimes unable to adequately scan such dividers. The title from the original document is indicated below.

Divider Title: N
MEMORANDUM FOR ROBERT RUBIN
FROM: BILL WHYMAN
SUBJECT: Jobs Conference Policy Surprises

We need to be ready for a number of policy surprises that could arise at the Jobs conference. Though we will make all efforts to ensure that surprises do not happen, we know some of the countries have different views from our own. My major concern is that a proposal from one of the countries, would go against the domestic agendas of the others (including us), who are all planning one domestic reform or another. In such a case, it could set off a chain reaction, where Ministers are concerned the message coming out of the conference could be used against them back at home.

Even prickly allies like the Brits, who generally agree with us, could get very upset in such a chain reaction. Most likely surprises include.

1. French views linking trade to labor standards. The French have at various times argued that other countries engage in "social dumping" as they do not have labor, environmental, and social standards comparable to Europe. Proposals include linking trade access to meeting labor and other social standards. Often this is directed against the Asians. We have not made up our own minds on labor standards issues (we need to sort this out before, if possible). The argument also comes in a number of other protectionist packaging, which complicate our trade position.

2. Mandatory work sharing. Some in France and others in Europe have proposed mandatory sharing of jobs as a response to unemployment. This idea and other "mandatory" programs pose government as highly intrusive in the economy, igniting business fears. Mandates clearly are a sensitive issue for us. More broadly, we want to create more jobs and growth, not ration what we have.

3. Blame or leave out the developing countries. The conference could be criticized as the "rich country club" getting together to solve their unemployment problems, excluding or working to the detriment of the rest of the world. Combined with French noises about "social dumping," this could send a bad message.

4. Labor strikes/action. Currently the big German metalworkers union is striking. This could still being going on at the time of the conference. Labor action going on in Europe (or elsewhere) could dramatically change the tone and public backdrop
for the conference. We could try to argue this shows how right on the President was in calling for the conference. This is unpredictable at best.

5. The Japanese fear "protectionist" policies at the conference. They are apoplectic that the "over-representation of Europeans" in the G-7 (read France) may lead to views that Western unemployment is due to Asian (Japanese) unfair trade practices. Our own trade impasse and super 301 position make them even more uneasy—especially in Detroit.

6. Social taxes. Because payroll taxes have drive up the non-wage costs to employers, it has become as an obstacle to job creation. The EU has proposed an "environmental tax," to finance programs instead. Although we disagree with this "tax shifting," the greater problem is not the substance, but that we don’t want the message coming out of the conference to be tax increases.

In addition, we have the general problem of the conference not producing a big "outcome." Given the diversity of views within the G-7 about responding to change (as Major told you), quick agreement on anything big is unlikely.
This is not a presidential record. This is used as an administrative marker by the William J. Clinton Presidential Library Staff.

This marker identifies the place of a tabbed divider. Given our digitization capabilities, we are sometimes unable to adequately scan such dividers. The title from the original document is indicated below.

Divider Title: O
Economic Performance

The Canadian economy, partly because of its close ties to the US, is sharing in a moderate economic recovery, after a more severe recession than in the US during 1990-91. The economy grew 2.4 percent in 1993 and the OECD Secretariat is forecasting real GDP will grow 3.9 percent in 1994 and 4.3 percent in 1995. Very good progress has been made in containing inflation, but unemployment is very high and the budget deficit at both the federal and provincial levels is large and growing.

Unemployment has remained stuck at about 11% of the workforce since March 1992. This partly reflects the permanent shedding of jobs by Canada's manufacturing sector. Also, despite recent government attempts to tighten eligibility, generous unemployment insurance may be inhibiting job-seeking.

Canada's recent high unemployment rates are the result of both cyclical and structural problems in the economy. The minimum rate of unemployment consistent with low inflation is believed to be 8 - 8.5 percent, compared with 5.5 to 6.0 percent in the United States.

Canadian analysts and politicians widely agree on the need for tightening of the generous unemployment insurance system, and for educational reforms that meet the need for a better-educated workforce. Human resources Minister Axworthy has called for a review of Canada's social safety net (health, education and unemployment insurance), with an interim report due in March and a final one in September.

Fiscal and Monetary Policy

Although the GOC has pursued a policy of fiscal consolidation through expenditure cuts since 1984, overall deficits and government debt have continued to grow. Some of this is due to slow economic recovery and less than expected revenues from the much disliked goods and services tax (GST). It also reflects a persistently high structural deficit (OECD estimate of 3.3 percent of GDP in 1992). Debt service payments account for 25 percent of the budget, and 40 percent goes for non-discretionary social spending (transfers to individuals and provinces). Provincial governments are also facing major fiscal problems; their aggregate deficit in 1992 and again in 1993 was almost as large as the federal deficit.

Finance Minister Martin has reiterated the Liberals' campaign pledge to reduce the deficit/GDP ratio to three percent in three years but it is still not clear how they intend to do this. The new Liberal government estimates that the deficit for the current fiscal year, ending March 31, 1994, will be C$44-46 billion (about 6.3 percent of GDP), well above the Tory estimate of C$32.6 billion made last year in April. It appears that the FY 1994-95 budget, presented to Parliament on February 22, will not significantly reduce the deficit, projected to be C$39.7 billion.

The Bank of Canada and the Department of Finance have been using tight monetary policy to achieve their goal of "zero inflation" (up to 2 percent measured annual inflation) by 1995. The aim is to promote long-run price stability and
competitiveness. In fact, Canada's CPI inflation rate in 1992 was the lowest in the G-7 and has remained below 2 percent since. The BOC was criticized by the Liberals during the fall election campaign for excessive restraint during the recent period of slow growth.

The BOC has been pursuing a policy to encourage a further gradual decline in interest rates. Short-term interest rates were 4.0 percent in February and long-term government bond rates were 6.95 percent. The recent increase in the U.S. Federal Funds rate led to a sharp increase in the Bank of Canada rate on February 8, raising doubts about whether interest rates will be able to go much lower.

Its medium-term inflation target already achieved, the BOC has begun gradual monetary easing to stimulate the economy. However, the BOC's desire for lower interest rates is constrained by concern that this would drive down the Canadian dollar. Substantial external debt denominated in U.S. dollars and high current account deficits requiring financing make the BOC leery of exchange rate depreciation. Against a background of already low inflation and a roughly 5.5% output gap (IMF estimate), easier monetary conditions would be unlikely to cause a resurgence in inflation.

During 1992 the Canadian dollar fell significantly (9 percent) against the U.S. dollar. Constitutional anxieties and concern about the weakened economy mostly accounted for the decline. The Canadian dollar depreciated 4 percent in 1993, in part because of the narrowing spreads between interest rates in Canada and the United States. Other factors have been the sluggish pace of economic recovery, budgetary problems, low commodity prices and volatility in international financial markets.

External Sector

Canada's recovery has been powered largely by exports, particularly to the U.S.; residential construction; and strong machinery and equipment investment. Nonetheless, Canada's 1993 current account deficit was a high 3.5% of GDP, and is not expected to decline much below $19 billion (3.5 percent of GDP) for the 1994-95 period. The negative services balance (especially interest payments and tourism) will continue to act as a drag on the external sector.

IMI/BHolloway
3/10/94
## CANADA

### KEY ECONOMIC INDICATORS

<table>
<thead>
<tr>
<th>Year</th>
<th>Real GDP (% Change)</th>
<th>Saving/GDP (%)</th>
<th>Investment/GDP (%)</th>
<th>Unemployment Rate (%)</th>
<th>CPI (%Change)</th>
<th>BOP ($BIL.)</th>
<th>Exchange Rate</th>
<th>FISCAL BAL %/GDP</th>
<th>MONETARY</th>
<th>Interest Rates (end/yr)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1990</td>
<td>-0.2</td>
<td>16.8</td>
<td>21.1</td>
<td>8.1</td>
<td>4.8</td>
<td>-22.2</td>
<td>0.85</td>
<td>-4.0</td>
<td>+7.8</td>
<td>11.60</td>
</tr>
<tr>
<td>1991</td>
<td>-1.7</td>
<td>15.2</td>
<td>19.5</td>
<td>10.3</td>
<td>5.6</td>
<td>-25.3</td>
<td>0.87</td>
<td>-4.5</td>
<td>+10.6</td>
<td>7.55</td>
</tr>
<tr>
<td>1992</td>
<td>0.7</td>
<td>14.5</td>
<td>18.9</td>
<td>11.3</td>
<td>1.5</td>
<td>-22.9</td>
<td>0.83</td>
<td>-6.3</td>
<td>+5.5</td>
<td>7.05</td>
</tr>
<tr>
<td>1993</td>
<td>2.4</td>
<td>NA</td>
<td>NA</td>
<td>11.2</td>
<td>1.8</td>
<td>-19.6</td>
<td>0.78</td>
<td>-6.4</td>
<td>+3.5</td>
<td>4.00</td>
</tr>
<tr>
<td>1994</td>
<td>3.5</td>
<td>NA</td>
<td>NA</td>
<td>10.8</td>
<td>1.8</td>
<td>-17.2</td>
<td>NA</td>
<td>-3.2</td>
<td>NA</td>
<td>4.00*</td>
</tr>
</tbody>
</table>

1. NIA Basis – Including Social Security.
3. IMF estimate of general government balance with output level at potential level.
FRANCE: ECONOMIC OUTLOOK

Economic Situation and Prospects

The sluggish French economy experienced its worst economic performance in 30 years; growth declined 0.7% in 1993. Treasury estimates it will increase 1.2% in 1994. The business sector has cut jobs and investment because of high interest rates, weak exports and sluggish domestic sales. Consumers remain cautious because of the weak economy and growing joblessness. The number of unemployed has risen to a record level of over 3 million people, or 12.2% of the labor force. In addition to the effect of slow growth on employment, France has a more fundamental problem of low job creation because of high labor costs, including high social insurance charges and high minimum wages, extensive long-term unemployment benefits and a mismatch of job skills.

On the positive side, former Prime Minister Beregovoy's "strong franc" policy of adhering to a fixed DM/FF exchange rate has brought inflation below that of Germany (consumer price inflation averaged 2.1% in 1993) and strengthened French credibility in financial markets. Inflation is expected to remain at a 2% rate in 1994-95, as continued high unemployment checks wage growth and some reduction in interest rates holds down business financing costs. Nonetheless, France has maintained excessively high interest rates despite the August 2, 1993 widening of the ERM bands. The French growth outlook has been hurt by these continued high rates and by weakened export performance, as the currencies of some of France's trading partners (sterling, lira, peseta, escudo, Irish pound, and most Nordic currencies) have declined. Despite French concerns of a possible weakening of the external accounts, the current account balance is expected to remain in surplus ($9.1 billion or 0.7% of GDP in 1994), in part because of the recessionary impact of weak imports.

Economic Policy Stance

Prime Minister Balladur faces a formidable challenge to strengthen growth and reduce unemployment within the confines of his policy goals and available policy tools. The GOF has not used the room for more expansionary monetary policy created by the wider ERM bands, preferring to limit the decline of the franc and simply wait for cuts in German rates. The intervention rate has fallen only from 6.75% in August to 6.1% on February 24. Balladur's government also inherited a much worse fiscal situation than previously realized by the public, i.e., a deficit/GDP ratio of almost 6%, or more than double the earlier estimate. In addition to over-optimistic growth forecasts by the former Socialist government, revenue has fallen from weak consumption, and expenditures have increased because of unemployment insurance. But deliberate (if veiled) fiscal expansion also contributed, with monetary policy unavailable for domestic stabilization objectives. Thus the focus on ERM
stability has contributed to worsening of the fiscal position and further departure from Maastricht conversion criteria.

PM Balladur has promised reduction of the budget deficit, (estimated to measure 4.2% of GDP in 1994) but the worsening economy has delayed action. However, the government has promised progressive budget deficit reduction starting in 1994 through increased social security taxes, spending cuts and revenues from the planned privatization program, the latter conveniently reducing deficits without withdrawing fiscal stimulus. In the meantime, it has proposed a modest stimulus package of tax cuts and spending measures. The package announced on January 31 aims to boost household consumption and the automobile and construction industries. The overall effect of the stimulus measures is unlikely to provide a significant boost to the economy.

The government has also promised to reduce unemployment through public spending, job training, reducing the cost to employers of hiring first-time workers and limiting the rise in the minimum wage. Although these modest measures are a long awaited first step in improving France's chronic high level of unemployment, structural factors such as the high cost of hiring labor (because of social insurance charges and high minimum wages), the extreme difficulty in laying off or discharging workers, generous unemployment benefits and the mismatch of job skills to the education system will limit improvement in employment.

In January, the French Government completed the final stage of its creation of an independent Bank of France with the appointment of a nine-member Monetary Council which will be responsible for the conduct of monetary policy and the determination of interest rates. The council will be headed by Jean-Claude Trichet, the governor of the Bank of France, and his two deputies, who will serve six year terms. Monetary policy will continue to be made with an eye on Frankfurt, given France's emphasis on maintaining the DM/FF parity and the desire to rebuild foreign exchange reserves by selling francs in periods of strength.

Economic Policy Requirements

Unless the franc is forced out of the ERM, the GOF will have little freedom to ease monetary policy to stimulate growth. However, movement by the Bundesbank to lower rates further should enable the French to ease further. Meanwhile, the GOF remains cautious about too much deliberate fiscal action to stimulate the economy. Any expenditure growth will be kept at moderate levels. France is very reluctant to erase its hard won fiscal gains, which are beginning to appear negligible as the budget deficit remains high.
France would welcome accelerated easing of interest rates in Germany, but will resist strongly pressures for it to ease unilaterally. Of the three largest European economies excluding France and Germany (Italy, UK, and Spain), only France remains in the ERM. France stands to gain the most from further reductions in European interest rates, particularly as further stimulus actions could take place with little danger of a resurgence of inflation.
### FRANCE
#### KEY ECONOMIC INDICATORS

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>y/y</td>
<td>4/4</td>
<td>y/y</td>
<td>4/4</td>
</tr>
<tr>
<td><strong>Real GDP (% Change)</strong></td>
<td>1.4</td>
<td>0.6</td>
<td>-0.7</td>
<td>-0.2</td>
</tr>
<tr>
<td>Savings/GDP (%)</td>
<td>20.9</td>
<td>20.7</td>
<td>20.8</td>
<td></td>
</tr>
<tr>
<td>Investment/GDP (%)</td>
<td>21.8</td>
<td>21.4</td>
<td>21.6</td>
<td></td>
</tr>
<tr>
<td>Unemployment Rate (%)</td>
<td>10.5</td>
<td>12.2</td>
<td>12.5</td>
<td>12.2</td>
</tr>
<tr>
<td><strong>CPI (% Change)</strong></td>
<td>2.3</td>
<td>1.8</td>
<td>2.1</td>
<td>2.2</td>
</tr>
<tr>
<td><strong>BOP ($BIL.)</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cur. Acct. bal.</td>
<td>4.0</td>
<td>10.7</td>
<td>9.1</td>
<td>9.0</td>
</tr>
<tr>
<td>Cur. Acct. %/GDP</td>
<td>0.3</td>
<td>0.8</td>
<td>0.7</td>
<td>0.7</td>
</tr>
<tr>
<td><strong>Exchange Rate</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Franc/$ Nominal</td>
<td>5.3</td>
<td>5.7</td>
<td>5.9</td>
<td>6.0</td>
</tr>
<tr>
<td>Real Trade Weighted</td>
<td>+4.1%</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>FISCAL BAL/GDP</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cent. Govt.</td>
<td>-3.2</td>
<td>-4.6</td>
<td>-4.2</td>
<td>-3.9</td>
</tr>
<tr>
<td>Gen. Govt.</td>
<td>-3.8</td>
<td>-5.8</td>
<td>-5.1</td>
<td>-4.3</td>
</tr>
<tr>
<td>Structural Balance¹</td>
<td>-2.8</td>
<td>-3.2</td>
<td>-2.4</td>
<td>-2.3</td>
</tr>
<tr>
<td>(cyclically adjusted)</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>MONETARY²</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>M1 (%Chg)</td>
<td>1.3</td>
<td>-2.0</td>
<td>N.A.</td>
<td>N.A.</td>
</tr>
<tr>
<td>M3 (%Chg)</td>
<td>5.7</td>
<td>3.8</td>
<td>N.A.</td>
<td>N.A.</td>
</tr>
<tr>
<td><strong>Interest Rates</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Interbank (3 month)</td>
<td>10.42</td>
<td>6.56</td>
<td>6.3³</td>
<td>4.4</td>
</tr>
<tr>
<td>Govt Bond (7-10 yr.)</td>
<td>8.63</td>
<td>5.70</td>
<td>6.2⁴</td>
<td></td>
</tr>
<tr>
<td>Real Interbank</td>
<td>8.02</td>
<td>4.36</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Real Govt. Bond</td>
<td>6.23</td>
<td>3.50</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

---

¹OECD estimate of general gov't. balance with output at potential level.

² 1993 is December y/y rate

³As of February 28, 1994.

⁴As of February 28, 1994.
**GERMANY: ECONOMIC OUTLOOK**

**Economic Situation and Prospects**

West German GDP declined 1.9% last year (all-German GDP declined 1.3%). The recession has now probably bottomed out, but recovery has barely begun. Manufacturing capacity utilization rose very slightly in 4Q93, but real GDP declined 0.7% (4Q/3Q). Industrial firms, while somewhat less pessimistic, due to improving export prospects, continue to anticipate a level of demand too weak (4Q93 industrial orders were down) to accelerate the pace of economic activity. A "double dip" situation may occur with GDP declining again in 1Q94, as private consumption is further weakened by declining real wages and January increases in fuel taxes and administrative charges. Modest growth is unlikely to be visible before mid-year.

For 1994 we see all-German GDP rising 0.9% (0.5% in the west); the IMF and the OECD expect 0.6% growth. The government optimistically forecasts 1-1.5% growth (0.5-1.0% in the west). East German GDP growth was 7.1% last year, and more than 8% is forecast for 1994. However, this does not represent self-sustaining growth but reflects the massive inflow of public and private funds to sustain and restructure the economy.

Reflecting both the weak economic situation and ongoing industrial restructuring, west German unemployment rose sharply last year, to an average 7.3% rate, and is forecast to rise further to 8.6% in 1994. In the east, recorded unemployment is expected to remain at an average 15% for the 1993-95 period. Including hidden unemployment, the figure is expected to remain about 30%, as job losses due to economic restructuring continue to exceed the employment opportunities created by new investment.

West German inflation has declined slowly over the past twelve months, from a 4.2% (yr/yr) rate in February 1993 to a 3.3% (yr/yr) rate in February 1994. Monthly inflation increases are now at about a 2% saar. In the east inflation remains roughly double the rate in the west, primarily due to increases in rent and energy prices, as they are adjusted to market prices. The 1994 the inflation rate is expected to average 3.2%.

**Economic Policy Stance**

After an almost four month hiatus (punctuated by three cuts in the money market intervention rate and a modest reduction in reserve requirements), the Bundesbank cut the discount rate by 50 basis points to 5.25% (lombard rate unchanged at 6.75%) on Thursday, February 17. While special factors have produced abnormally high monetary growth figures in the last two months, the 3-month interbank rate has risen only slightly to 5.9%. However, the yield curve is now positive again for the first time since end-January 1991, as the 10-year Government bond yield has risen to 6.3%. Despite this development the Bundesbank is expected to continue lowering short term rates, although only at its own, too-slow, pace in the weeks ahead. It has signalled this by shifting to a variable rate for its latest (March 1)
repurchase operation and accepting a slightly lower rate.

Germany's external accounts continue to be in a small deficit position (about 1% of GDP). These deficits (starting with 1991) were originally the result of post-unification domestic demand expansion. In retrospect, larger deficits would have been desirable, to reduce excess demand for German output. But the continuation of these current account deficits suggests a long term problem of insufficient German competitiveness. Initiatives by both industry and government have focused on reducing high labor costs and other structural rigidities that inhibit efficient utilization of labor. These efforts will contribute to the health of Germany's export industries and the attractiveness of Germany's investment climate, compared to that in other countries. The latter is crucial both to industrial restructuring and to future growth, particularly in east Germany.

To counter his current unpopularity, Kohl has announced an ambitious "growth and employment action program" while also adhering to his budget deficit reduction plans. These, and other steps already taken to address national economic and social concerns, are intended to demonstrate the government's capability to respond to the country's needs, and enable Kohl to be reelected for the third time on October 16.

Despite federal expenditure reductions and increases in taxes and social charges which are substantially reducing structural budget deficits, the 1994 general government deficit is forecast to remain unchanged at 3.5% of GDP, as expenditures continue to rise faster than receipts. The broader public sector borrowing requirement, including the rail and postal systems, the social security system, the Treuhand and other off-budget accounts, is forecast to decline slightly to 6.4% of GDP in 1994.

**Policy Requirements**

With inflation declining, wage growth slowing and fiscal policy tightening, the latest Bundesbank actions are long overdue. Rather than continuing to be deterred from easing monetary policy more aggressively, the Bundesbank needs to demonstrate actively in the money market its support for German economic recovery. While it is always possible to wait for one more wage negotiation, or removal of special factors in monetary growth, or a stronger DM, the cost of waiting in terms of forgone GDP and employment in both Germany and the rest of Europe is high. The Bundesbank risks losing credibility by offering reasons for restraint that lack acceptable substance. While other ERM participants deserve blame for not cutting their interest rates more rapidly the Germans have in fact retarded growth in most of Europe by their excessive caution.
### Germany Key Economic Indicators

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>y/y</td>
<td>4Q/4Q</td>
<td>y/y</td>
<td>4Q/4Q</td>
</tr>
<tr>
<td><strong>REAL GDP</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>West</td>
<td>1.6%</td>
<td>0.0%</td>
<td>-1.9%</td>
<td>-0.8%</td>
</tr>
<tr>
<td>East</td>
<td>9.7%</td>
<td>7.1%</td>
<td>8.3%</td>
<td>8.5%</td>
</tr>
<tr>
<td>All</td>
<td>2.1%</td>
<td>-1.2%</td>
<td>0.9%</td>
<td>1.6%</td>
</tr>
<tr>
<td><strong>Savings/GDP</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>21.9%</td>
<td>21.0%</td>
<td>21.1%</td>
<td>22.0%</td>
</tr>
<tr>
<td><strong>Investment/GDP</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>23.2%</td>
<td>22.8%</td>
<td>22.8%</td>
<td>23.4%</td>
</tr>
<tr>
<td><strong>Unemployment Rate</strong></td>
<td>7.7%</td>
<td>8.9%</td>
<td>9.8%</td>
<td>10.4%</td>
</tr>
<tr>
<td><strong>CPI</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>West</td>
<td>4.0%</td>
<td>3.7%</td>
<td>4.2%</td>
<td>3.7%</td>
</tr>
<tr>
<td>East</td>
<td>11.2%</td>
<td>8.8%</td>
<td>4.5%</td>
<td>3.7%</td>
</tr>
<tr>
<td>All</td>
<td>4.5%</td>
<td>4.5%</td>
<td>3.3%</td>
<td>2.6%</td>
</tr>
<tr>
<td><strong>BOP ($ bils)</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Current Acct</td>
<td>-25.1</td>
<td>-20.6</td>
<td>-20.6</td>
<td>-18.6</td>
</tr>
<tr>
<td>Current Acct/GDP</td>
<td>-1.3</td>
<td>-1.1%</td>
<td>-1.1%</td>
<td>-1.0%</td>
</tr>
<tr>
<td><strong>EXCHANGE RATE</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>DM/$ Nominal</td>
<td>1.56</td>
<td>1.67</td>
<td>1.71</td>
<td>N.A.</td>
</tr>
<tr>
<td>Real Trade-Weighted</td>
<td>2.8%</td>
<td>0.5%</td>
<td></td>
<td>N.A.</td>
</tr>
<tr>
<td><strong>FISCAL BALANCE(%GDP)</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Central gov't</td>
<td>-1.7%</td>
<td>-2.1%</td>
<td>-2.1%</td>
<td>-2.3%</td>
</tr>
<tr>
<td>General gov't</td>
<td>-2.6%</td>
<td>-3.5%</td>
<td>-3.5%</td>
<td>-3.2%</td>
</tr>
<tr>
<td>Structural bal.</td>
<td>-4.5%</td>
<td>-3.7%</td>
<td>-2.3%</td>
<td>-1.4%</td>
</tr>
<tr>
<td><strong>MONETARY GROWTH (yr. end)</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>M1</td>
<td>10.8%</td>
<td>N.A.</td>
<td>N.A.</td>
<td>N.A.</td>
</tr>
<tr>
<td>M3</td>
<td>7.6%</td>
<td>N.A.</td>
<td>N.A.</td>
<td>N.A.</td>
</tr>
<tr>
<td><strong>INTEREST RATES (Dec avg)</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>90-day</td>
<td>7.8%</td>
<td>6.0%</td>
<td>5.9%</td>
<td>N.A.</td>
</tr>
<tr>
<td>10 yr. gov't bond</td>
<td>7.1%</td>
<td>5.6%</td>
<td>6.3%</td>
<td>N.A.</td>
</tr>
<tr>
<td>Real 90-day</td>
<td>4.1%</td>
<td>2.4%</td>
<td>2.6%</td>
<td>N.A.</td>
</tr>
<tr>
<td>Real 10 yr.</td>
<td>3.4%</td>
<td>2.0%</td>
<td>3.0%</td>
<td>N.A.</td>
</tr>
</tbody>
</table>

F is Treasury forecast 12/93.

1IMF Forecast, 9/93 and 12/93.

2As of March 3, 1994

3Nat'l Income Accts. basis -- includes Social Security

4OECD estimate of general gov't balance with output at trend level.
GREECE
ECONOMIC OUTLOOK

Greece has been plagued by high inflation, sluggish economic growth, and huge Government deficits since the early 1980s. During recently re-elected Prime Minister Papandreou’s first term in office, from 1979 to 1990, Greece’s economic growth slowed to an average annual rate of 1½%, from an average of more than 6% in the preceding decade and a half. Inflation rose from a 10% average rate to 19% during these same periods. The public finances deteriorated rapidly as well. The general government deficit rose from less than 2% of GDP in 1978 to more than 18% in 1990, while the stock of public debt rose from less than 40% of GDP to more than 100% over the same period.

The Government of former Prime Minister Mitsotakis attempted to address some of Greece’s deep seated structural problems during its 3½ years in office. The Government reduced the fiscal deficit from 18% of GDP in 1990 to 11% in 1992, before it ballooned again to nearly 15% of GDP last year. Mitsotakis also made some progress in reducing the economic role of the state, implementing wide-ranging deregulation and financial liberalization programs, as well as privatizing or liquidating a number of state owned enterprises. Economic growth remained disappointing, however. After 3.3% real GDP growth in 1991, Mitsotakis’ first full year in office, tight monetary and fiscal policy slowed growth to only 0.9% in 1992. The economy remained sluggish in 1993 -- in part because of weak growth in Europe as a whole -- despite expansionary fiscal policy, with growth estimated at 0.5%. Inflation also remained stubbornly high at more than 14% in both 1992 and 1993.

Papandreou has made some attempts to reassure investors and private business that he will continue the process of fiscal consolidation and privatization. Most observers remain skeptical, however, given his track record and the socialist ideology of his Pasok party.

Greece’s high household savings rate and large transfers from the European Union (estimated at about 3% of GDP) have allowed the country to finance its private investment and government deficits without large current account deficits. Greece’s current account deficit is relatively modest, at an estimated 2% of GDP for 1993. The stock of external public sector debt is fairly large, however, at nearly 30% of GDP. With total public sector debt in excess of 120% of GDP, it remains to be seen how long the Greek public will be willing to finance the enormous Government deficits, at least at the relatively low real interest rates that investors have been willing to accept until now. Real treasury bill yields have averaged only 2½% in the past three years. In Italy, another country with high private savings and large government deficits, real treasury bill yields have averaged more than 6% in recent years, and only recently fell below 5%.
## GREECE
### KEY ECONOMIC INDICATORS

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Real GDP (% change)</strong></td>
<td>3.3</td>
<td>0.9</td>
<td>0.5</td>
<td>0.9</td>
<td>2.1</td>
</tr>
<tr>
<td>Nominal GDP (US$ bn)</td>
<td>70.0</td>
<td>77.6</td>
<td>72.1</td>
<td>74.5</td>
<td>77.0</td>
</tr>
<tr>
<td>National Savings/GDP (%)</td>
<td>15.3</td>
<td>15.5</td>
<td>NA</td>
<td>NA</td>
<td>NA</td>
</tr>
<tr>
<td>Household Savings/Disposable Income (%)</td>
<td>18.5</td>
<td>15.6</td>
<td>15.2</td>
<td>15.2</td>
<td>15.4</td>
</tr>
<tr>
<td>Investment/GDP (%)</td>
<td>18.6</td>
<td>18.0</td>
<td>NA</td>
<td>NA</td>
<td>NA</td>
</tr>
<tr>
<td><strong>Unemployment Rate (%)</strong></td>
<td>7.6</td>
<td>9.2</td>
<td>10.0</td>
<td>10.7</td>
<td>11.2</td>
</tr>
<tr>
<td><strong>Consumer Price Inflation (%)</strong></td>
<td>18.6</td>
<td>14.6</td>
<td>14.1</td>
<td>NA</td>
<td>NA</td>
</tr>
<tr>
<td>Current Account (US$ bn)</td>
<td>-1.6</td>
<td>-2.1</td>
<td>-1.4</td>
<td>-1.5</td>
<td>-1.5</td>
</tr>
<tr>
<td>Current Account/GDP (%)</td>
<td>-2.2</td>
<td>-2.8</td>
<td>-1.9</td>
<td>-2.0</td>
<td>-2.0</td>
</tr>
<tr>
<td><strong>Exchange Rate — Drachma/$ (Annual Avg.)</strong></td>
<td>182.3</td>
<td>190.6</td>
<td>229.3</td>
<td>NA</td>
<td>NA</td>
</tr>
<tr>
<td>Exchange Rate <strong>Annual Change</strong></td>
<td>-13.0%</td>
<td>-4.4%</td>
<td>-16.9%</td>
<td>NA</td>
<td>NA</td>
</tr>
<tr>
<td>General Government Fiscal Balance (% of GDP)</td>
<td>-14.4</td>
<td>-11.1</td>
<td>-14.8</td>
<td>-15.7</td>
<td>-14.9</td>
</tr>
<tr>
<td>Structural Balance'1</td>
<td>-15.1</td>
<td>-11.4</td>
<td>-14.5</td>
<td>-14.9</td>
<td>-14.3</td>
</tr>
<tr>
<td><strong>Monetary Growth (M3 % change)</strong></td>
<td>12.3</td>
<td>15.0</td>
<td>NA</td>
<td>NA</td>
<td>NA</td>
</tr>
<tr>
<td>Interest Rates (Treasury Bill, annual avg.)</td>
<td>18.8</td>
<td>17.7</td>
<td>18.3</td>
<td>NA</td>
<td>NA</td>
</tr>
<tr>
<td>Real Treasury Bill Rate'2</td>
<td>0.2</td>
<td>3.1</td>
<td>4.2</td>
<td>NA</td>
<td>NA</td>
</tr>
</tbody>
</table>

E Actual and OECD estimate.
F OECD Forecast, *OECD Economic Outlook, December 1993.*
1 OECD estimate of the general government balance if output were at trend level.
2 Calculated by subtracting the Treasury bill rate from consumer price inflation.
ITALY: CC OMIC OUTLOOK

Economic Situation and Prospects:

Italy's medium to longer-term outlook appears fairly bright, assuming the Government that takes office after the March 27-28 elections continues the process of fiscal consolidation and structural reform begun under Prime Minister Ciampi and his predecessor, Giuliano Amato. The recession that began in the second half of 1992 seems to be bottoming out. The decline in final domestic demand has slowed, and Italy's improved competitiveness following the lira's depreciation (see attached chart) leaves the country positioned for a period of sustained economic growth, assuming recovery in trading partner countries. Inflation remains relatively subdued, despite the lira's 21% decline against the deutsche mark since September 1992.

The Italian economy is estimated to have contracted by 0.6% during 1993, as declining domestic demand overcame strong net exports. Treasury forecasts growth of 1.4% in 1994 and 1.8% in 1995, as domestic demand begins to recover and net exports remain strong. The OECD forecasts a stronger recovery in domestic demand, resulting in real GDP growth of 1.7% in 1994 and 2.3% in 1995. End-year consumer price inflation declined to 4.0% in 1993, the lowest level in 25 years, and most observers project continued moderate inflation of about 4% in 1994, falling to about 3½% in 1995. (Treasury's projection of 4.5% for 1994 may be a bit high.)

Economic Policy Stance:

Prime Minister Ciampi has built on the progress made under the Amato Government in restoring fiscal discipline, which is vital to regaining private sector confidence. He has also worked to reestablish Italy's damaged credibility with international financial markets. The privatization program finally appears to be under way with the successful sale of the state-owned banks, Credito Italiano and IMI, as well as a number of commercial firms. Italy's huge public debt stock and weak public finances continue to impede the effective use of monetary and fiscal policy to stimulate the economy. The imperative of reducing inflation, and the associated desire to prevent significant further lira depreciation, also constrains Italy from easing monetary policy beyond the rate of German easing.

Parliament passed the Ciampi Government's 1994 austerity budget by a wide margin in late December. The budget package includes revenue and expenditure measures aimed at reducing the deficit by nearly 2% of GDP from what it would be under 1993 law. Treasury forecasts a general government deficit equivalent to 8.4% of GDP in 1994 and 8.0% by 1995, down from an estimated 8.9% of GDP in 1993. The OECD forecasts a decline in the cyclically adjusted structural deficit from 8.6% of GDP in 1992 to 4.7% in 1995.

The elimination of wage indexation (scala mobile) and a new, more flexible, national labor agreement resulting in lower unit labor cost inflation have played a key role in reducing overall price increases. Weak domestic demand and the willingness of suppliers and distributors to absorb part of the costs of lira depreciation have also helped to shield Italy from the full inflationary consequences of the currency's decline. Some analysts have expressed concern that distributors and suppliers will start to pass on these costs as the economy firms, resulting in higher inflation during 1994. These concerns have eased somewhat as producer price increases, which had
been running above consumer price inflation, have slowed. Inflation could pick up this year, however, if organized labor pushes for higher wages or if there is a relaxation of fiscal policy.

The boost to competitiveness from lira depreciation has been reinforced by the moderation in labor cost increases. The lira was largely unaffected by the July 1993 ERM turmoil and band widening. The Italians welcomed the wider band and have expressed interest in rejoining the ERM at some point. The lira, trading at 988 per DM and 1,684 per dollar on March 2, has fallen 35% against the dollar and 21% in real trade weighted terms since September 1992.

Policy Requirements:

The key economic issue confronting Italy is whether the next Government will continue to follow the policies adopted by Prime Minister Ciampi. This question is particularly pressing given the electoral collapse of the traditional centrist parties. The two largest political forces in Italy now appear to be the former Communist PDS party and a rightist coalition of the neo-fascist MSI, the separatist Northern League, and the Forza Italia movement led by media magnate Silvio Berlusconi.

Most observers believe the next Government will have little choice but to continue the policies of fiscal consolidation and privatization. The PDS, presenting itself as a center-left party, has declared in its recently released economic platform that it will continue the reforms begun under the Amato and Ciampi Government. Once in power, however, the PDS might face pressure from organized labor, their natural constituency, to refrain from privatizations involving layoffs and to increase Government spending and public sector employment. The rightist parties might be expected to be more disposed to continue the Ciampi policies. The neo-fascist MSI ideology has strong statist elements, however, and neither Berlusconi nor the Northern League have a clearly enunciated economic program.

The next Government will also need to continue to work at improving Italy's image with the international financial community, which was damaged by delays in payments to creditors of Government agencies and state-owned enterprises. The interminable negotiations with foreign creditors over the liquidation of EFIM, the state-owned industrial holding company and similar problems involving SACE, the Government's export credit agency were particularly damaging. EFIM's liquidator finally paid creditors on December 14, after a year and a half of discussions. Creditors were not completely satisfied, but Italy's image in the financial community may now begin to improve. Problems involving SACE export guarantees continue to drag on.

OASIA/IMI/RJohnston
3/3/94
Japan's worst postwar recession/slowdown continues, with the latest estimates indicating little or no growth in 1993 and only 0.8% growth for this year, even with the Feb. 8 fiscal package. For 1995, the OECD and IMF project 2.3% for the "recovery" year; we think 1.5% is more likely. Thus the output gap would widen for the fourth straight year.

Industrial production has been falling (y/y) for over two years, though 1993's 4.5% decline was less than the previous year's 6.1% decline. More output cuts are in store: despite nearly two years of attempts at inventory reduction, the inventory/shipment ratio is at its highest level so far this cycle. The unemployment rate rose to 2.8% in December, the highest level since August 1987; overtime worked and bonus payments continue to decline.

Total private domestic demand remains moribund and shows no sign of driving economic recovery. Housing construction has shown sustained growth, but only in that portion funded by loans from public sector entities. Japanese corporate investment was off 6.7% in 1992, is expected to drop about 5% in 1993 and to fail to grow in 1994. (Investment dropped 1.6% in Q393.) Growth of personal consumption, by far the largest component of domestic demand, has slowed sharply since FY1990. Consumption grew only 1% in FY1992 and will likely increase by only 0.6% in FY1993.

The latest releases of economic indicators show a mixed picture of the economy early in 1994. On the positive side, industrial production rose 0.9% (m/m), housing starts rose 12% (m/m), and unemployment fell to 2.7% in Jan. Nevertheless, retail sales fell 2.4% (y/y) in Jan. and the quarterly Tankan survey confirmed the weakness of the domestic economy as well as a bearish outlook for private capital spending.

The current weakness of domestic demand will tend to slow the reduction of Japan's current account surpluses that could otherwise be expected as a result of the yen's appreciation. The yen rose 24% against the dollar and 19% against the trade-weighted average of currencies from January to August 1993. After a partial reversal, the yen surged to match August highs following the breakdown of trade talks.

There could be a significant impact on the trade balance from this source. By late fall, there appeared to be some signs of weaker export volumes and increased import volumes that could be attributed to exchange rate forces. The current account in yen terms may have peaked in the first quarter of 1993.

The current account surplus is projected to decline from a
peak of $131 billion in 1993 to $120 billion this year; about $3 bn of that decline can be attributed to the stimulus package. (The OECD forecasts $136 billion.) The current account surplus could expand again in 1995, despite recent yen appreciation (which may not persist), due to the expected delayed onset and slow pace of the Japanese recovery, and the emergence of stronger growth in Japan's export markets.

The U.S.-Japan bilateral trade deficit rose to $59 billion in 1993 (customs basis) after $49.6 billion in 1992, with U.S. imports up 10% and U.S. exports to Japan up only 0.3% to $137 million.

**Policy Stance**

The weakness in domestic demand has persisted despite the Japanese Government's (GOJ) stimulus efforts. The official discount rate (ODR) has been cut seven times since 1991 to the historic low of 1.75%. However, with wholesale price inflation a negative 2.9%, consumer price inflation just 1% in 1993 and widely expected to be less than half that in 1994, real interest rates are still relatively high despite the fall in nominal interest rates. At this juncture, another ODR cut appears unlikely, given the announcement of the latest stimulus package, a recovering Nikkei average, and some signs that the economy, though not recovering, may not slow any further in the months ahead.

Four public works packages totalling over 45 trillion yen (nearly $420 billion) have been introduced in a little over eighteen months. Although the additional demand from these packages was substantially less than indicated by their headline figures, the packages have helped offset the worsening economic outlook.

The latest 15.3 trillion yen stimulus package differs from its predecessors by virtue of a one-year 5.5 trillion yen income tax cut, and also features about 3.0 trillion yen in additional public works spending. Taken alone, this package could add as much as 1.2 ppts. to 1994 GDP growth. However, the initial FY94 budget, which will set the underlying level of government spending the latest stimulus package is designed to augment, is quite restrictive.

If the latest stimulus package is included in FY93 spending, FY94 expenditures would contract 5.6% from FY93. If the package is included in FY94, when it will actually be spent, FY94 expenditures will be unchanged from FY93. This is a sharp reduction from 7.7% growth achieved in FY93, (computed without the latest stimulus package).
Furthermore, shortly after the stimulus package was announced, the Ministry of Health and Welfare announced a hike in public pension premiums in FY1994, with a net revenue gain estimated at 3 trillion yen. The planned increase will likely generate an additional, though modest, drag on the private economy.

Monies from extant stimulus packages will be exhausted by mid-1994. After that, successive, additional large stimulus packages will be necessary to prevent contraction of spending from year-earlier levels. As presented, the stimulus package and the FY94 initial budget imply a somewhat positive fiscal policy in the near term and contractionary policy in the second half of the year.

Given that tax receipt projections in the initial budgets were overly optimistic, tax revenues are likely to be less than forecast. That will exert strong pressure for spending restraint, even cuts -- not further stimulus -- as the year progresses. Increases in bond issuance well beyond those currently budgeted will have to be tolerated in order to maintain positive rates of growth of government spending.

Japan's fiscal balance has declined markedly since 1990, but most of this decline has been cyclical. The GOJ still has the strongest fiscal position in the G-7. (Estimates for the central government position excluding the large social security surplus, which the GOJ likes to use, are higher, but are not a meaningful measure of the government's impact on the economy.)

The GOJ's general government balance (overall government sector including social security, IMF estimates) declined from a surplus of 1.5% of GDP in 1992 to an estimated deficit of 0.4% of GDP in 1993, and a further decline to 2.7% of GNP is projected for 1994. The cyclically adjusted deficit in 1994 will be much smaller, at 0.4% of GDP: much of the recent deterioration will correct spontaneously with an economy recovery.
### JAPAN

#### KEY ECONOMIC INDICATORS

<table>
<thead>
<tr>
<th></th>
<th>1991</th>
<th>1992</th>
<th>1993(^1)</th>
<th>1994(^2)</th>
<th>1995(^3)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>y/y</td>
<td>4/4</td>
<td>y/y</td>
<td>4/4</td>
<td>y/y</td>
</tr>
<tr>
<td><strong>Real GNP (% Change)</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>CY</td>
<td>4.3</td>
<td>3.7</td>
<td>1.4</td>
<td>0.1</td>
<td>0.2</td>
</tr>
<tr>
<td><strong>Unemployment Rate (%)</strong></td>
<td>2.1</td>
<td>2.2</td>
<td>2.5</td>
<td>3.0</td>
<td>3.0</td>
</tr>
<tr>
<td><strong>CPI (% Change)</strong></td>
<td>3.3</td>
<td>2.8</td>
<td>1.6</td>
<td>1.0</td>
<td>1.3</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>BOP ($BIL.)</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cur. Acct. Bal.</td>
<td>72.9</td>
<td>117.6</td>
<td>131.4</td>
<td>120.0</td>
<td>124.0</td>
</tr>
<tr>
<td>Cur. Acct. % GNP</td>
<td>2.2</td>
<td>3.2</td>
<td>3.1</td>
<td>2.7</td>
<td>2.7</td>
</tr>
<tr>
<td><strong>Exchange Rate</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Yen/$ Nominal</td>
<td>134.6</td>
<td>126.8</td>
<td>111.75</td>
<td>105.7(3/4)</td>
<td>N.A.</td>
</tr>
<tr>
<td>Real Trade-weighted</td>
<td>4.2%</td>
<td>2.5%</td>
<td>11.9%</td>
<td>N.A</td>
<td>N.A</td>
</tr>
<tr>
<td><strong>FISCAL BAL %/GNP(^4)</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Gen. Govt.</td>
<td>3.0</td>
<td>1.5</td>
<td>-0.4</td>
<td>-2.7</td>
<td>-1.4</td>
</tr>
<tr>
<td>Structural Balance</td>
<td>2.4</td>
<td>1.9</td>
<td>1.1</td>
<td>-0.4</td>
<td>1.1</td>
</tr>
<tr>
<td><strong>MONETARY</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>M1 (% chg)</td>
<td>5.2</td>
<td>4.5</td>
<td>3.2</td>
<td>3.7</td>
<td>4.8</td>
</tr>
<tr>
<td>M2+CDs (% chg)</td>
<td>3.6</td>
<td>0.6</td>
<td>1.0</td>
<td>2.4</td>
<td>3.1</td>
</tr>
<tr>
<td><strong>Interest Rates (end/yr)</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>90-day Gensaki</td>
<td>6.1</td>
<td>3.7</td>
<td>1.7</td>
<td>1.83 (3/2)</td>
<td>N.A.</td>
</tr>
<tr>
<td>10 yr JGB</td>
<td>5.8</td>
<td>4.7</td>
<td>3.2</td>
<td>3.94 (3/2)</td>
<td>N.A.</td>
</tr>
<tr>
<td>Real 90 day Rate</td>
<td>3.3</td>
<td>2.7</td>
<td>0.7</td>
<td>1.13 (3/2)</td>
<td>N.A.</td>
</tr>
<tr>
<td>Real 10 year Rate</td>
<td>3.1</td>
<td>3.7</td>
<td>2.2</td>
<td>3.24 (3/2)</td>
<td>N.A.</td>
</tr>
</tbody>
</table>

3/4/94

---

1. Treasury Estimates
2. Treasury Forecasts
3. Treasury Forecasts
4. All levels of government plus social security balances (Financial Attache), and estimates of cyclically-adjusted general government balances (OECD)
UNITED KINGDOM: ECONOMIC OUTLOOK

Economic Situation and Prospects

Following two years of recession, the principal economic problem now facing British policy officials is how to sustain economic recovery without reigniting inflation or escalating the already high budget deficit which Treasury forecasts to amount to 5.5% of GDP in 1994.

With private consumption leading recovery, the UK economy grew 2% in 1993, the highest growth in the G-7 after the U.S. It will continue to be a bright spot in Europe, with GDP projected (Treasury) to increase about 2.4% in 1994.

Unemployment remains high (but at a lower rate than in Canada, France, and Italy) at 2.8 million or 9.9% of the labor force. Unemployment seems to be responding more quickly than during previous recoveries, presumably reflecting greater flexibility in labor markets.

Consumer confidence has improved recently due to lower interest rates and reduced unemployment. However, tax increases beginning in April 1994 may cause a downturn in confidence and endanger HMG's latest growth and deficit projections.

Retail price inflation (RPI) has decreased considerably due to weak demand, wage deceleration, reduced mortgage interest rates (important in the RPI), and cuts in local taxes. Existing excess capacity is counteracting any upward pressure on prices from the pound's devaluation following its exit from the ERM.

The current account deficit, estimated at $11.4 billion or 1.4% of GDP last year, remains at higher levels than should be the case with a weak economy, and is raising fears that even a modest recovery would expand external deficits to untenable levels. Weak European markets are minimizing the positive effects on exports of the pound's depreciation.

Despite a stronger economic recovery in the UK than elsewhere in Europe, PM Major's government remains plagued by divisions in the Tory Party over issues raised by European Union, including the ERM and the Social Charter. Chancellor Clarke restored some credibility by presenting a tougher November budget than was expected, but PM Major remains stymied by low popularity polls and a poor outlook for Tory members in May 1994 local and European Parliament elections.

Policy Stance

Withdrawal of the pound from the Exchange Rate Mechanism (ERM) in September 1992 has allowed substantial monetary easing, with official short-term interest rates falling from 10% before
the ERM crisis to their current level of 5.25%. However, the UK has been reluctant to reduce interest rates as much as it would like for domestic policy reasons. It would do so, if German and other European rates were to continue downward. Any further decline in UK interest rates would support recovery of housing and business investment.

Fiscal policy had become significantly more expansionary as much as a year ago. However, Chancellor Clarke's November 30 budget, which included more spending cuts and fewer tax increases than expected, will decrease the deficit at a more rapid pace than previously forecast. HMG aims to bring the budget into balance by FY 1998/99.

Policy Requirements

While recent economic developments indicate stronger near-term growth prospects, the outlook for the UK's trading partners remains grim. Further interest rate reductions to stimulate the domestic economy would be beneficial. Real interest rates have come down, and real short rates (estimated by subtracting the GDP deflator) are at levels last seen in the 1960's, but real long-term rates are still somewhat higher than 30 years ago. Yet these rates are still not appropriate for an economy below capacity limits. The recovery remains checked by low home prices, (the UK owner occupancy rate is 70%), high household debt, April's large tax hikes, and the threats of higher wage demands and their impact on inflation.

The rate of retail price inflation (RPI) remained below 2% for all of 1993, the best inflation performance in 30 years. While most of the improvement is genuine, the reduction has been exaggerated by the decline in mortgage interest rates (weighted heavily in the index) and cuts in taxes included in the RPI. (E.g., while the RPI rose 2.5% in the year to January, the "core" RPI excluding mortgage rate rose 2.8%) Wage gains have moderated, averaging only 3% last year. With the impact of the mortgage interest rate decline falling out of the index this year, and indirect taxes going up, the unadjusted RPI will probably rise again. Thus policy makers will be cautious in reducing interest rates further.

The OECD estimates that the shift in the UK structural fiscal balance (general government) in 1993 was by far the most stimulative among G-7 countries and the structural deficit next year would be the second largest among the G-7 (after Italy). [Previously, so as not to undermine recovery yet sustain growth over the long term, PM Major had resisted spending cuts, delaying any tightening in fiscal policy until the beginning of Fiscal Year 1994-1995 (April 1)]. Chancellor Clarke's tax increases, in addition to those announced in March 1993 by former Chancellor Lamont, are being put in place to reduce the deficit and thereby
improve the balance between national saving and investment for long-term growth and the reduction of external deficits. These fiscal plans should also facilitate further reductions in long-term interest rates. Further monitoring of the budget deficit needs attention so as to ensure fiscal sustainability.

OASIA/IMI: Susan Rzemien  
3/10/94
## U.K.

### KEY ECONOMIC INDICATORS

<table>
<thead>
<tr>
<th></th>
<th>1992</th>
<th>1993</th>
<th>1994(^F)</th>
<th>1995(^F)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>y/y</td>
<td>4Q/4Q</td>
<td>y/y</td>
<td>4Q/4Q</td>
</tr>
<tr>
<td><strong>Real GDP</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>(% Change, y/y)</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Invstmt/GDP (%)</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Savings/GDP (%)</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Unemployment Rate</strong></td>
<td>9.8</td>
<td>10.4</td>
<td>9.9</td>
<td>9.4</td>
</tr>
<tr>
<td><strong>CPI (% Change)</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>(Includes mortgage interest)</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>BOP ($BIL.)</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Curr. Acct.</td>
<td>-15.3</td>
<td>-11.4</td>
<td>-13.3</td>
<td>-10.4</td>
</tr>
<tr>
<td>Curr. Acct./%GDP</td>
<td>-1.5</td>
<td>-1.4</td>
<td>-1.3</td>
<td>-1.0</td>
</tr>
<tr>
<td><strong>Exchange Rates</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>$/Sterling</td>
<td>1.77</td>
<td>1.50</td>
<td>1.50</td>
<td>1.5</td>
</tr>
<tr>
<td>Real Trade-weighted</td>
<td>-3.6</td>
<td>-8.7</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>FISCAL BAL/GDP</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Central Govt.</td>
<td>-6.8</td>
<td>-8.3</td>
<td>-6.1</td>
<td>-4.6</td>
</tr>
<tr>
<td>General Govt.</td>
<td>-6.2</td>
<td>-7.5</td>
<td>-5.5</td>
<td>-4.4</td>
</tr>
<tr>
<td>Structural Bal.(^1)</td>
<td>-3.5</td>
<td>-5.0</td>
<td>-4.4</td>
<td>-3.9</td>
</tr>
<tr>
<td><strong>MONETARY</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>MO (% Change)</td>
<td>2.5</td>
<td>5.8</td>
<td>5.5</td>
<td>5.5</td>
</tr>
<tr>
<td>M4 (% Change)</td>
<td>5.5</td>
<td>5.8</td>
<td>4.5</td>
<td>4.5</td>
</tr>
<tr>
<td>3M. Int. Rate</td>
<td>9.6</td>
<td>5.0(^1)</td>
<td>5.0</td>
<td>6.0</td>
</tr>
<tr>
<td>LT Int. Rate</td>
<td>9.1</td>
<td>7.4(^1)</td>
<td>6.7</td>
<td>7.0</td>
</tr>
<tr>
<td>Real 3M. Int. Rate</td>
<td>5.8</td>
<td>3.5</td>
<td>2.3</td>
<td>2.5</td>
</tr>
<tr>
<td>Real LT Int. Rate</td>
<td>7.6</td>
<td>5.3</td>
<td>4.0</td>
<td>3.5</td>
</tr>
</tbody>
</table>

\(^F\) = U.S. Treasury Forecast, 1994-1995

\(^1\) As of March 4, 1994.

\(^2\) OECD estimate of general gov't. balance with output at potential level.
UNEMPLOYMENT TRENDS AND INACTIVITY RATES

-- In the 1970's, U.S. unemployment rates were typically much higher than Europe's and Japan's, but somewhat below Canada's. The gap began to close in the early 1980's, and now the United States has one of the lowest rates among the G-7 countries.

-- In 1993, only Germany and Japan had lower jobless rates than the United States; Canada, France, Italy, and the United Kingdom all had unemployment rates over 10 percent.

-- Germany's 1993 rate of about 6 percent does not include the new Eastern regions of the country; their inclusion would probably increase the German rate to over 7 percent.

-- Members of the G-7 are in different cyclical positions. The United States has had a significant decline in unemployment over the past year. Unemployment continues to rise in Japan, France, Italy, and Germany, but has been leveling off in Canada and the United Kingdom.

-- Japan's unemployment rate, low by the conventional definition, draws closer to the U.S. rate when the definition is expanded to account for the reduced hours of persons working part time for economic reasons and to include discouraged workers.

-- The economically inactive population consists of the working-age population that is neither working nor seeking work. Discouraged workers form part of the inactive population. Other reasons for inactivity include school attendance, child care, disability, and retirement. The proportion of the population who are economically inactive varies widely by age and sex across countries due to differences in the propensities to combine work and school or childcare, availability of day care services, and differences in disability and retirement systems.
For men in the prime working ages (25 to 54 years), who are not influenced by many of the factors noted, inactivity rates are low and, in 1992, varied within a narrow range of from 5 to 9 percent in the G-7 countries, except for Japan where only 2 percent of prime age men are economically inactive.

Over the 1980's, inactivity rates for men in the prime working ages showed little change, rising slightly except in Japan. In contrast, inactivity rates for women in the prime working ages declined in all G-7 countries.

The non-employment rate links unemployment and inactivity: it is the sum of the inactive and the unemployed divided by the working-age population. The non-employment rate is a broader measure of labor underutilization than the unemployment rate or the inactivity rate alone.

Non-employment rates rose in the early 1980's in all G-7 countries except Japan, then declined for the rest of the decade in the United States, Canada, Germany, and the United Kingdom, while remaining high in France and Italy. In the 1990's, non-employment rates moved upward in all countries except Japan; however, the increase for the United States was confined to 1991.

Although Canadian and Japanese unemployment rates were higher in 1993 than in 1980, their non-employment rates were lower. For the European countries, both unemployment rates and non-employment rates were higher in 1993 than in 1980. The United States was the only country with both lower unemployment and lower non-employment rates in 1993 compared with 1980.

In 1993, the non-employment rate was highest in Italy and lowest in Japan, followed by the United States.

On average for the 1980's, non-employment rates for prime age men ranged from 12 to 15 percent in the G-7 countries, except for Japan where the rate was about 5 percent. The United States was the only G-7 country with a decline in the non-employment rate for prime age men from 1980 to 1989.
For prime age women, non-employment rates declined over the 1980's in all G-7 countries, with the largest decreases in the United States and Canada. This primarily reflected declines in inactivity rates (rising labor force participation rates). In some G-7 countries, however, primarily France, Germany, and Italy, the declines in inactivity were tempered by increases in unemployment.
Unemployment Rates, 1970's, 1980's, and 1990-1993

* 1990-1993 average based on preliminary data for 1993 for all countries except the U.S. and Canada.

SOURCE: Data adjusted to U.S. concepts by BLS.
Unemployment Rates in 1993

<table>
<thead>
<tr>
<th>Country</th>
<th>Rate (percent)</th>
</tr>
</thead>
<tbody>
<tr>
<td>France</td>
<td>11.3</td>
</tr>
<tr>
<td>Canada</td>
<td>11.2</td>
</tr>
<tr>
<td>U.K.</td>
<td>10.4</td>
</tr>
<tr>
<td>Italy</td>
<td>10.3</td>
</tr>
<tr>
<td>U.S.</td>
<td>6.8</td>
</tr>
<tr>
<td>Germany</td>
<td>5.9</td>
</tr>
<tr>
<td>Japan</td>
<td>2.5</td>
</tr>
</tbody>
</table>

Note: Preliminary data except for the U.S. and Canada.

SOURCE: BLS
Unemployment Rates, 1992-1993

Note: 4th quarter 1993 preliminary except for the U.S. and Canada.
SOURCE: Data adjusted to U.S. concepts by BLS.
Conventional and Expanded* Unemployment Rates, 1989

*Rate expanded to account for the reduced hours of persons working part time for economic reasons and to include discouraged workers.

Notes: Data for Germany are not available.
SOURCE: BLS