




DEPARTMENT OF THE TREASURY
WASHINGTON, D.C. 20220

September 30, 1997

To: The Secretary
The Deputy Secretary

From: Jon Gruber 

Re: Economic Policy Weekly Report

Work on Presidential Initiatives

Climate Change: Economic Policy is nearing completion of a memo to the President from the Secretary and Deputy Secretary raising concerns about aggressive targets and timetables, the role of technology in reducing emissions, grandfathering-type permit allocation mechanisms, and command-and-control approaches to emissions reductions. We also worked with the NEC to include our concerns in a memo that is going through Gene Sperling to the President.

Electricity Restructuring: We are working with the NEC to draft an options paper that will go to Principals for a meeting in mid-October. We are also working with DoE to reach consensus on a number of areas of difference, including the Public Benefits Fund and the Renewable Portfolio Standard. There remain strong disagreements within the Administration about rural price supports and the extent to which this bill should include clean air provisions. DoE would like to push forward with an Administration position soon, even if legislation is not forthcoming until next year.

Tobacco: Economic Policy continues to work on issues related to the proposed Tobacco Settlement, including: critically reviewing the FTC's recent analysis of the potential price effects of a settlement; requesting information from ATF on how a settlement would affect grey and black market activity and ATF's budget and enforcement responsibilities; and, examining empirical evidence on the role of non-price aspects (e.g., marketing and advertising restrictions) in affecting youth smoking. We are also participating in a new interagency group on strategy, headed by Bruce Reed.

Disaster Insurance: Economic Policy is working with Domestic Finance and Legislative Affairs to consider two potential strategies for stabilizing disaster insurance markets: 1) A limited role that addresses identified problems in private markets, or 2) A more aggressive role in which Treasury intervenes directly in private secondary insurance markets. The former option supports emergence of private market solutions but may have little immediate impact; the latter solution may preempt private markets. We are being careful to integrate our policy-making in this area with the political pressures emerging from the Hill. We plan to have a recommendation for the Deputy Secretary by later this week.

Higher Education Financial Aid: We continue to work with the Department of Education on a proposal to alter its financial aid formula by reducing the taxation of assets and allowing the use of multi-year income data. At this point, there is some uncertainty over when Education will submit its proposal. The House had planned to mark-up Education's reauthorization request in mid-October but that has been delayed pending a Congressionally-commissioned study on college costs due in mid-December. As a consequence, the Administration may also decide to delay submission of its proposals until the 1998 budget request.

Child Care: A meeting of the child care interagency group on September 24 discussed the difficulties of reaching more families through an expansion of the child and dependent care tax credit. There was a general consensus that direct subsidies, through an HHS program, would be more effective. Economic Policy is also contributing to interagency proposals on child care quality and after-school care.

Major Economic Indicators and Events in the Past Week (Through September 30)

Growth in **real GDP** in the second quarter was revised down to 3.3 percent at an annual rate from 3.6 percent last month. Downward revisions in exports, consumer spending, and equipment investment were primarily responsible for the change. The overall picture of a slowdown in consumer spending in the second quarter offset by strong investment growth and continued inventory accumulation did not change. Data available thus far indicate a rebound in consumer spending in the third quarter but negative inventory investment. Measures of inflation in the GDP accounts were revised slightly higher but were still very favorable.

Monthly data on **personal consumption expenditures** show that real spending rose by 0.2 percent in August and figures for June and July were marked up, to 0.4 percent and 0.8 percent, respectively. With no further change in September, real consumer spending would be up at about a 5 percent annual rate in the third quarter compared with growth at a 0.9 percent annual rate in the second. **Personal income** in nominal terms rose by 0.6 percent in August, while real income after taxes was up by 0.4 percent.

The August report on **durable goods orders** suggested that equipment investment is also likely to be strong in the third quarter. Although shipments of nondefense capital goods (excluding aircraft) declined over the month, the average for July and August is well above that of the second-quarter. New orders for durable goods rose by 2.7 percent in August.

Sales of new single-family homes declined by 2.2 percent in August to 800,000 units at a seasonally adjusted annual rate. Despite the decline, the inventory of unsold new homes remains very low, which could prompt additional building in coming months. Sales of existing single-family homes were strong, rising by 3.3 percent in August.

Housing fundamentals continue to be favorable, including high levels of **consumer confidence**. The Michigan index rose from 104.4 to 106.0 in September, near the July all-time record. The Conference Board measure also increased in September and is very near its June reading, which was the highest in 28 years.

The **Federal Open Market Committee** concluded its meeting on September 30 with no statement issued, leaving analysts to believe that current monetary policy was left unchanged.

Indicators Scheduled for Next Week (Through October 7)

- Index of Leading Economic Indicators**, August (October 1)
- Construction Expenditures**, August (October 1)
- National Association of Purchasing Management Index**, September (October 1)
- Manufacturers' New Orders and Inventories**, August (October 2)
- Employment and Unemployment**, September (October 3)
- New Car and Light Truck Sales**, September (October 3)
- Consumer Installment Credit**, August (October 7)

EP Schedule (Robert Gillingham and Jon Gruber)

Tuesday, September 30

- Kids Health Implementation Meeting (@OEOB)
- Weekly Health Strategy Meeting with Chris Jennings (@OEOB)

Wednesday, October 1

- Child Care Tax Subsidy Issues Meeting (@OEOB)
- Technical Meeting on Adarand with Joe Minarik (@OEOB)

Thursday, October 2

- No external meetings scheduled

Friday, October 3

- Climate Change Meeting with AFL/CIO (@ White House)
- Employability Seminar with Alan Krueger, James Heckman, Richard Freeman, and Larry Katz

The Week Ahead:

Monday, October 6

- No external meetings scheduled

Tuesday, October 7

- Kids Health Implementation Meeting (@OEOB)

- Weekly Health Strategy Meeting with Chris Jennings (@OEOB)

Wednesday, October 8

- No external meetings scheduled

Thursday, October 9

- No external meetings scheduled

Friday, October 10

- No external meetings scheduled