



The Secretary of the Treasury

August 11, 1997 -

NOTE FOR JON GRUBER

FROM: BOB RUBIN

Page 1 -- Climate Change

Interesting set of issues.

Electricity Restructuring

Good.

Attachment



DEPARTMENT OF THE TREASURY
WASHINGTON, D.C. 20220

97-SE-8228

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July 28, 1997

INFORMATION

To: The Secretary
The Deputy Secretary

From: Jon Gruber *JG*

Re: Economic Policy Weekly Report

for Jon Gruber
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Key News

Tobacco settlement: The proposed settlement contains a look-back provision intended to provide economic incentives to tobacco firms to achieve dramatic and immediate reductions in the number of underage consumers of tobacco products. The firms would face a surcharge if tobacco-use reduction targets for underage users were not met. Economic Policy is involved in reviewing the look-back provision and examining alternative structures that could make it more effective. We are also working with OMB to analyze the budgetary impacts of the deal, and with CEA to produce an overview piece on the economics of the deal. ✓

D.C. Economic Development Corporation: A series of workshops on best economic development practices around the country is planned for key stakeholders in the proposed D.C. Development Corporation.

Climate Change: We have been engaged in discussions of climate change policy on several fronts. We are critiquing the OMB/DOE document on technology that will form the basis for Friday's NEC Principals meeting, and which takes an overly sanguine view of the prospects of technological advance for solving our climate problems. We are working with EPA to produce a report which accurately assesses the lessons of past cap and trade systems, and which carefully explores the feasibility of an auction system. And we are working with OASIA to consider approaches for incorporating developing countries into the climate change solution.

interesting set of issues

Electricity Restructuring: As laid out in previous weeklies, we have complaints with a number of DOE proposals. The most recent problem is an attempt by the EPA to tie not only increased clean air regulations, but also carbon restrictions, to the deregulation bill. This is opposed by DOE as well as by the economic agencies. We are coordinating our series of complaints with the other economic agencies in preparation for Principals level discussion of this issue.

Cost

EXECUTIVE SECRETARIAT

Major Economic Indicators Released in Past Week (Through July 29)

The **employment cost index (ECI)** for private sector and state and local government workers increased by 0.8 percent in the three months ending June and by 2.8 percent over the past twelve months. This was in line with the 2.9 percent growth over the twelve months ending in March, and indicates that compensation costs are in a stable pattern and do not appear to be exerting any upward pressure on inflation. In the latest twelve-month period, wages and salaries rose by 3.2 percent while benefit costs increased 2.0 percent, held down by continued containment in health insurance costs.

The advance report on **new orders for durable goods** in June showed considerable forward momentum in the manufacturing sector. New orders increased by 2.3 percent, shipments of durables were up 1.8 percent, and the backlog of unfilled orders also continued to rise. Orders for the key nondefense capital goods component (excluding aircraft) increased by 1.7 percent, the first gain in four months, while shipments of these goods have been strong and suggest continued rapid growth in real equipment investment in the second quarter.

The Conference Board measure of **consumer confidence** declined in July after hitting a 28-year high in June. Despite the 3.4 percentage point decrease in July, the index remains at an historically high level and is well above the average over the past year. Both the present situation and expectations components are still very favorable.

Indicators Scheduled for Next Week (Through August 5)

New Home Sales, June (July 30)

GDP, Q-II, advance (July 31)

Employment and Unemployment, July (August 1)

Personal Income, June (August 1)

National Association of Purchasing Management Index, July (August 1)

Consumer Confidence, Michigan, July (August 1)

Manufacturing Inventories, June (August 1)

Construction Expenditures, June (August 4)

Index of Leading Economic Indicators, June (August 5)

New Car and Light Truck Sales, July (August 5)

EP Schedule (Robert Gillingham and Jon Gruber)

Monday, July 28

- Climate Change (@OEOB)

Tuesday, July 29

- Health Issues (@OEOB)
- Climate Change (@OEOB)
- Weekly Electricity Restructuring Meeting (@OEOB)
- Working Group on Child Care (@OEOB)

Wednesday, July 30

- Climate Change (@OEOB)

Thursday, July 31

- Weekly Health Care Strategy w/Bruce Reed
- Climate Change (@OEOB)

Friday, August 1

- Climate Change (@OEOB)

The Week Ahead:

Monday, August 4

- No external meetings

Tuesday, August 5

- Health Issues (@OEOB)

Wednesday, August 6

- No External Meetings Scheduled

Thursday, August 7

- Weekly Health Care Strategy w/Bruce Reed

Friday, August 8

- No external meetings