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EXECUTIVE OFFICE OF THE PRESIDENT
OFFICE OF MANAGEMENT AND BUDGET
WASHINGTON, D.C. 20503

FAX COVER SHEET

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DATE 3/6/92

TO: Bob Simon

OFFICE: _____

Office Phone Number: 7750

Fax Number: 6218

FROM: Kerry Early

Agency: OMB Legislative Affairs

Office Phone Number: 395-4790

Office Fax Number: 395-3729

Additional Information:

Following is a list of the bills transmitted by
the President to the 101st and 102nd
Congresses. One addition to this list
is a bill transmitted on Friday, April 3, 1992 -
"Freedom for Russia and Emerging Eurasian Democracies
and Open Markets Support Act of 1992"

February 28, 1992

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1. Clean Air Act Amendments of 1989
 - Transmitted by the President on 07/21/89
 - Enacted, with substantive modifications, in P.L. 101-549, Clean Air Amendments of 1990, signed 11/15/90
2. Comprehensive Campaign Finance Reform Act of 1989
 - Transmitted by the President on 09/26/89
3. Comprehensive Violent Crime Act of 1989
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4. Educational Excellence Act of 1989
 - Transmitted by the President on 04/05/89
5. Government-Wide Ethics Act of 1989
 - Transmitted by the President on 04/12/89
6. Head Start Amendments of 1989
 - Transmitted by the President on 03/15/89
 - Enacted, with substantial modifications, in P.L. 101-120, signed 10/23/89
7. Honoraria Reform Act of 1989
 - Transmitted by the President on 07/07/89
8. Judicial Salary Act of 1989
 - Transmitted by the President on 04/12/89
 - Enacted, substantially as proposed, in P.L. 101-194, signed 11/30/89
9. Senior Executives Salary Act of 1989
 - Transmitted by the President on 07/07/89
 - Enacted, with substantial modifications, in P.L. 101-194, signed 11/30/89
10. Working Family Child Care Assistance Act of 1989
 - Transmitted by the President on 03/15/89
 - The major child care provisions enacted in P.L. 101-508, Omnibus Budget Reconciliation Act of 1990, signed 11/15/90, are based on the President's proposal

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11. Andean Trade Preference Act of 1990
 - Transmitted by the President on 10/05/90
 - Enacted as part of H.R. 1724, signed 12/04/91 --
P.L. 102-182
12. Civil Rights Act of 1990
 - Transmitted by the President on 10/20/90
 - Enacted, with substantial modifications, in P.L. 102-166, Civil Rights Act of 1991, signed 11/21/91
13. Enterprise for the Americas Initiative Act of 1990
 - Transmitted by the President on 09/14/90
14. Line-item Veto Constitutional Amendment
 - Transmitted by the President on 04/25/90
15. National Tree Trust Act of 1990
 - Transmitted by the President on 03/22/90
 - Included in P.L. 101-624, Food, Agriculture, Conservation, and Trade Act of 1990, signed 11/28/90
16. Savings and Economic Growth Act of 1990
 - Transmitted by the President on 02/01/90

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17. AMERICA 2000 Excellence in Education Act
 - Transmitted by the President on 05/22/91
18. California Public Lands Wilderness Act
 - Transmitted by the President on 07/29/91
19. Comprehensive Violent Crime Control Act of 1991
 - Transmitted by the President on 03/11/91
20. Enterprise for the Americas Initiative Act of 1991
 - Transmitted by the President 02/26/91
21. Health Care Liability Reform and Quality of Care Improvement Act of 1991
 - Transmitted by the President on 05/15/91
22. Post-Employment Restriction Technical Correction Act of 1991
 - Transmitted by the President on 07/26/91

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23. Access to Justice Act of 1992

-- Transmitted by the President on 02/04/92

9. The man who wrongly holds that every human right is secondary to his profit must now give way to the advocate of human welfare, who rightly maintains that every man holds his property subject to the general right of the community to regulate its use to whatever degree the public welfare may require it.

THEODORE ROOSEVELT

Speech at Osawatomie, Kan., Aug. 31, 1910; *Works*, XVII, 17

10. We must all recognize that wealth used as capital is the basis of modern civilization, that the right of property is the most valuable right in building up our society, next to the right of personal liberty. The right of property develops in men, and developed in men of the Dark Ages, those virtues of self-restraint and providence upon which we build all the other virtues.

WILLIAM HOWARD TAFT

Speech at Boise, Idaho, Nov. 3, 1906; *Problems*, p. 124

See also Banks 6, Conscience 4, Government 26, 40, Honor 2, Religion 2, Republics 1, Rights 13, Slavery 5, 12, Wealth 2

Prosperity

1. Of all the dispositions and habits which lead to political prosperity, Religion and Morality are indispensable supports.

GEORGE WASHINGTON

Farewell Address, Sept. 19, 1796;
Writings (Fitzpatrick), XXXV, 229

2. Agriculture, manufactures, commerce and navigation, the four pillars of our prosperity, are the most thriving when left most free to individual enterprise.

THOMAS JEFFERSON

First Annual Message to Congress, Dec. 8, 1801; *Writings*, III, 337

3. Canals, railroads, and turnpikes are at once the *criteria* of a wise policy and causes of national prosperity . . . a want of them will be a reproach to our republican system.

JAMES MADISON

To Reynolds Chapman, Jan. 6, 1831; *Letters*, IV, 150

4. Perhaps of all the evidences of a prosperous and happy condition of human society the rapidity of the increase of population is the most unequivocal.

JOHN QUINCY ADAMS

First Annual Message to Congress, Dec. 6, 1825; *Messages and Papers*, p. 880

5. Let it be indelibly engraved on our minds that relief is not to be found

in expedients. Indebtedness can not be lessened by borrowing more money or by changing the form of the debt. . . . Our currency can not be improved by the creation of new banks or more issues from those which now exist. Although these devices sometimes appear to give temporary relief, they almost invariably aggravated the evil in the end. It is only by retrenchment and reform—by curtailing public and private expenditures, by paying our debts, and by reforming our banking system—that we are to expect effectual relief, security for the future, and an enduring prosperity.

MARTIN VAN BUREN

Third Annual Message to Congress, Dec. 2, 1839; *Ibid.*, p. 1771

6. We shall best promote the prosperity of the new States and Territories by furnishing them with a hardy and independent race of honest and industrious citizens.

JAMES BUCHANAN

7. At the basis of all prosperity . . . lies the improvement of the intellectual and moral condition of the people.

RUTHERFORD B. HAYES

Inaugural Address, Mar. 5, 1877

8. A really great people, proud and high-spirited, would face all the disasters of war rather than purchase that base prosperity which is bought at the price of national honor.

THEODORE ROOSEVELT

Address at Naval War College, June 2, 1897; *Works*, XIII, 184

9. I understand prosperity to be the abundant, intelligent, economic development of resources possessed by the country itself. . . . Prosperity . . . is using the plow, engines, mills, and water powers of this country just as you would use your own intellectual and physical resources.

WOODROW WILSON

Speech in New York, N.Y., Jan. 3, 1912; *Ideals*, p. 53

10. The originaive part of America . . . the class that saves . . . plans . . . spreads its enterprises until they have national scope and character—that middle class is being more and more squeezed out by the processes which we have been taught to call processes of prosperity. Its members are sharing prosperity, no doubt; but what alarms me is that they are not *originating* prosperity. No country can afford to have its prosperity originated by a small controlling class. . . . The treasury of America lies in those ambitions, those energies, that cannot be restricted to a special favored class.

WOODROW WILSON

1912; *New Freedom (Hale)*, p. 17

STATEMENT OF ROGER COLEMAN

PRESIDENT

RYKOFF-SEXTON, INC.

PREPARED FOR DELIVERY AT HEARINGS ON

H.R. 3185

(POSTPONED: NOVEMBER 14, 1991)

(ENTERED FOR THE RECORD: NOVEMBER 21, 1991)

For additional information CONTACT:

**Mary Lou McDonald
American Business Conference
(202) 822-9300**

My name is Roger Coleman. I am the President and Chief Executive Officer of Rykoff-Sexton, Incorporated.

Rykoff-Sexton is a public company with annual sales of \$1,460,000,000. Based in Los Angeles, our company manufactures and distributes foods and related products. You can find our products wherever food is prepared and consumed away from home. Our customers include restaurants, industrial cafeterias, hospitals, schools, hotels, and airlines. In addition we offer restaurant design and engineering services and, until last year, we published a consumer mail order catalog featuring specialty food items. In all, we produce or distribute more than 42,000 products.

We employ over 5,400 women and men in manufacturing and distribution centers around the country. Whether as plant workers, truck drivers, designers, or sales personnel, all of them have collectively contributed to our company's strong performance and growth.

As chief executive officer, I am the steward of their jobs. I hold ultimate responsibility for key decisions regarding the future of Rykoff-Sexton. One such decision, regarding the settlement of a class-action securities litigation, brings me here today.

I have come to Washington to ask that you amend H.R. 3185. Specifically, I ask that you consider adding to the bill provisions to address the problem of frivolous and harassing securities suits.

The problem of frivolous securities suits has been well-documented in the popular press and in law journals. Casual observers associate these suits with high-tech firms along Boston's Route 128 and in the Silicon Valley in California. As serious as the problem is for such companies, other firms are not immune. I should know.

Rykoff-Sexton had record earnings in 1989. I made a statement to my corporate community that 1990 performance should be even better. Due to declining economic conditions in some geographic regions of the country and other business conditions, we did not achieve that level of performance. As a result, I was sued in a shareholder class-action litigation, along with the Company, some of my fellow officers and the directors of Rykoff-Sexton.

At our first meeting with plaintiffs' counsel I learned a lesson that was confirmed again and again throughout the entire process. This suit was not about whether we were right or wrong. Plaintiffs' counsel focused at that meeting on only two concerns: Rykoff-Sexton's solvency and the nature of our insurance policies for directors and officers. And the merits of the case? Not one word. The issue was the depth of our pockets.

After that meeting I had little doubt who was driving this suit: the lawyers. Class-action plaintiffs, I found, often had no real interest in righting any wrong. Their passive participation simply gives lawyers a license to hunt. This creates a situation in which the plaintiff's lawyer is acting more for his own interest rather than for either the interests of his supposed client or for the shareholder group at large.

My own lawyers advised me not to expect the courts to rule quickly on the merits of the case. To be sure, I was told, there are rules designed to deter the filing of frivolous suits. But there is such a huge grey area as to what constitutes frivolous and malicious cases that forcing counsel for plaintiffs to demonstrate proof of merit usually is postponed until the very end of a long and expensive process.

Then there is the matter of discovery. Once it was determined this case could proceed as a class action, which required no showing of any strength to the case or even any basis for it, we became mired in an expensive and invasive discovery process. Discovery in federal court suits, I learned, is extremely broad and virtually limitless. We were required to turn over company files, to submit our officers and directors for days and days of deposition testimony, all without any requirement that the plaintiff at any time prove any merit to his case.

For a company like ours, which has a relatively lean management structure, time lost in the deposition process can be devastating. We simply could not afford the diversion of managerial attention away from company affairs. Many commentators bewail the supposedly short-term outlook of American management. I can tell you that nothing in my experience so shortens the time horizons of management more than becoming entangled in one of these suits. It brings everything to a stop.

Morale at the company was taking a beating, sometimes in unexpected ways. For example, because he was named in the complaint and therefore was

potentially liable, a Rykoff-Sexton vice president was unable to obtain a home mortgage. More broadly, so long as the suit was pending, our prospects, our reputation, our ability to bring our stockholders full value for their investment were all in jeopardy.

I faced a difficult dilemma. The company could continue to endure a crippling and expensive discovery process, in the hope of eventually convincing a judge to give us summary judgment. But achieving summary judgment was by no means certain. If we failed, we would then face the expense of trial preparation, followed by the uncertainties of a protracted jury trial. During that time, the case would continue to hang over our heads. Moreover, I was hearing from our insurers that they preferred a settlement instead of going to trial and risking greater liability.

Ultimately, I swallowed hard and decided to settle. Plaintiffs' attorneys readily agreed provided that we did not contest their fee application. In all, I calculate that this legal nightmare cost Rykoff-Sexton and its insurance company in settlement in excess of \$8.7 million, of which at least 25% will go into the pockets of plaintiffs' lawyers. That's over \$8.7 million that was diverted from new investments in jobs and facilities.

And what countervailing benefits were realized? None that I can see. Anyone who believes that the Securities and Exchange Commission determines what I and other CEO's can and cannot tell the investing public about our companies is mistaken. It's the trial lawyers and their professional plaintiffs who increasingly govern corporate disclosure policies, and that means less rather

than more information to the public. Perhaps that is why SEC Chairman Breeden supports legislation to curtail frivolous suits.

I think this subcommittee has before it a real opportunity to achieve substantive reform. By adopting provisions to minimize frivolous suits, you can better direct the legal system toward assisting legitimate victims of fraud.

How could this system be improved so as to not sap the strength of the American business system at the whim of a plaintiff's lawyer? We must act to take the weapons of expense and delay from these extortionists. In my view, the changes that are needed are relatively straightforward.

- o Plaintiffs should be required to show some merit and some basis for the claims they make before they can start in motion the discovery process.
- o There should be reasonable time and cost limits on pretrial discovery so that discovery becomes a method for pursuing facts rather than a bludgeon for pursuing a quick settlement.
- o Attorneys should be prohibited from paying "finders' fees" or "bounties" to induce potential plaintiffs to sue.
- o Plaintiffs attorneys or the plaintiffs themselves should face some risk if they lose. If the loser were required to pay attorneys' fees, we would see fewer frivolous suits.

I note that in a recent Sunday New York Times, an aide to this subcommittee said that the aim of H.R. 3185 is fairness toward those who have been defrauded in the securities markets. My recommendations are wholly consistent with that purpose. It seems to me that the only people who could

oppose these or similar ideas are the people currently profiting from the legal system's inordinate complexities.

We all read stories every day about the financial excesses of the past decade, stories associated with the S&L crisis and certain Wall Street frauds. What I have tried to talk about today is my direct experience with another form of wasteful, fraudulent behavior. It is the shakedown of corporations through the abuse of class-action litigation. While legal, it is no less cynical and no less destructive than some of the more notorious examples of financial corruption.

So I say, let's kill two birds with one stone. Use H.R. 3185 as the vehicle to help victims of fraud make the con artists accountable. But let's also use it to end another kind of scam: the class-action shakedown. The goals are complimentary: indeed, they are intertwined.

I strongly urge that in the name of protecting business, serious consideration be given to limitations of the type I have suggested. To level the playing field will allow American business to go on with its objectives of creating jobs and making profits without distractions from baseless litigation.

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1001 PENNSYLVANIA AVENUE, N.W.

WASHINGTON, D.C. 20004-2595

(202) 624-2500

CABLE: CROMOR

FACSIMILE (TRAPICON) 202-624-5116

W.U. (INTERNATIONAL) 64344

W.U. (DOMESTIC) 80-2440

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FACSIMILE COVER PAGE

FAX TELEPHONE NUMBER: (202) 628-5116

Date: 4/6/92

TO: John Howard, Counsel

Firm: Office of the VP

Facsimile Telephone Number: () 456-7044

Telephone number to confirm receipt: () 456-2816

Total Number of Pages (including cover sheet) 13

FROM: Victor Schwartz, Esq.

Originator's telephone number: () 624-2540

Re: History of Federal PL

Hard copy to follow: Yes ☐ No ☒

Please complete instruction page on reverse side.

MEMORANDUM

TO: John Howard, Counsel, Office of the Vice President
FROM: Victor E. Schwartz
DATE: April 6, 1992
RE: Legislative History of Federal Product Liability Bills

This memorandum will show that product liability legislation has had a long history of careful consideration in both the Senate and House of Representatives. That history actually began in 1976 when President Ford established a Federal Interagency Task Force on product liability to study the causes of the product liability "insurance crisis" that was occurring in the mid-1970's.

Following an 18-month study, the Federal Interagency Task Force published its final report in 1977. The Task Force made two recommendations. The first was to facilitate self-insurance alternatives to commercial product liability insurance. That recommendation led to enactment of the Product Liability Risk Retention Act in 1981 and the Risk Retention Act Amendments in 1986. The second of the Task Force's recommendations was to create more certainty in the product liability litigation system by making product liability laws uniform throughout the United States. Thus, in 1979, under the aegis of the Carter

Administration, the Department of Commerce published a model Uniform Product Liability Act ("UPLA") for implementation by the states. As it turned out, however, states enacted bits and pieces of the Act, but no state adopted the model Act as a whole; uniformity was not created. After it became clear that the states would not develop uniform product liability laws, efforts arose to create uniform laws through Federal legislation that would preempt the individual states' product liability laws.

96th Congress

Extensive hearings were held in the House of Representatives on the topic of product liability. Non-legislative hearings were held by Congressman John LaFalce in the Small Business Committee, and legislative hearings were held by the Consumer Subcommittee of the House Energy and Commerce Committee by Congressman James H. Scheuer. Two bills were considered, H.R. 7000 and H.R. 5626. H.R. 7000 was principally based on the Uniform Product Liability Act, modified so that it could be utilized as Federal legislation. Following these later hearings, in the Second Session of the 96th Congress, a new bill was drafted based principally on H.R. 7000. The bill, H.R. 7921, a Federal Uniform Product Liability Act, was introduced by Congressman Richardson Preyer (D-NC), James H. Scheuer (D-NY) and James Broyhill (R-NC). H.R. 7921 was also based on UPLA, with most of the procedural aspects of the model Act removed. It was felt that Federal legislation should concentrate on clear and coherent substantive rules. It was

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believed that procedural rules would interfere with local court operations.

97th Congress

In April, 1981, Senator Kasten asked the staff of the Consumer Subcommittee to begin with H.R. 7921 and prepare a staff draft for consideration by the Commerce Committee. In October, 1981, the staff draft was issued for public comment. The Committee received over 2000 pages of public comment from all interest groups including consumers, manufacturers, and product sellers. Based on these comments, the Commerce Committee made substantial revisions in the draft. Then, the Consumer Subcommittee held two days of hearings in March, 1982, on the need to reform product liability law. Senator Kasten introduced S. 2631 on June 16, 1982. The Consumer Subcommittee held two days of additional hearings on S. 2631.

On July 15, 1982, the Administration endorsed the concept of Federal legislation providing uniform product liability standards. On September 9, 1982, after consideration by the Cabinet Council on Commerce and Trade, the Administration expressed its support for S. 2631.

On October 1, 1982, the Senate Commerce Committee adopted S. 2631 with an amendment in the nature of a substitute and ordered the bill, as amended, favorably reported by voice vote. No further action was taken on S. 2631 in the 97th Congress. Members of the Commerce Committee were:

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Bob Packwood (R-OR)
Harrison H. Schmitt (R-NM)
Nancy Kassebaum (R-KS)
Slade Gorton (R-WA)

Bob Kasten (R-WI)
Barry Goldwater (R-AZ)
John C. Danforth (R-MO)
Larry Pressler (R-SD)
Ted Stevens (R-AK)

Russell B. Long (D-LA)
Daniel K. Inouye (D-HI)
Donald W. Riegle, Jr. (D-MI)
Howell Heflin (D-AL)

Howard W. Cannon (D-NV)
Ernest F. Hollings (D-SC)
Wendell H. Ford (D-KY)
J. James Exon (D-NE)

98th Congress

On January 26, 1983, Senator Kasten introduced S. 44, the Product Liability Act, in substantially the same form as it had been reported by the Senate Commerce Committee in the 97th Congress. Two days of hearings were held on S. 44 in April, 1983, during the First Session of the 98th Congress. One additional hearing was held in March, 1984, during the Second Session of the 98th Congress.

In July of 1983, the Administration again endorsed the concept of Federal Legislation providing uniform product liability standards and specifically endorsed S. 44.

On May 23, 1984, the Senate Commerce Committee reported favorably S. 44 with amendments. No further action was taken in the 98th Congress. The recorded vote was as follows:

Yes

Barry Goldwater (R-AZ)
John C. Danforth (R-MO)
Nancy Kassebaum (R-KS)
Larry Pressler (R-SD)
Slade Gorton (R-WA)

Ted Stevens (R-AK)
Bob Kasten (R-WI)

No

Bob Packwood (R-OR)
Ernest F. Hollings (D-SC)
Donald W. Riegle, Jr. (D-MI)
Howell Heflin (D-AL)
Frank R. Lautenberg (D-NJ)

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Paul S. Tribble, Jr. (R-VA)
 Russell B. Long (D-LA)
 Daniel K. Inouye (D-HI)
 J. James Exon (D-NE)

Present

Wendell H. Ford (D-KY)

99th Congress

On January 3, 1985, Senator Kasten introduced S. 100, the Product Liability Act, which was substantially the same as S. 44. The Consumer Subcommittee held a hearing on S. 100 on March 21, 1985, and the Bill was reviewed by the Senate Commerce Committee on May 16, 1985. On that day, S. 100 was not reported out. The vote was 8-8 vote. The recorded vote on S. 100 was as follows:

Yes

John C. Danforth (R-MO)
 Barry Goldwater (R-AZ)
 Nancy Kassebaum (R-KS)
 Bob Kasten (R-WI)

Russell B. Long (D-LA)
 Larry Pressler (R-SD)
 Ted Stevens (R-AK)
 Paul S. Tribble, Jr. (R-VA)

No

Ernest Hollings (D-SC)
 Daniel K. Inouye (D-HI)
 John D. Rockefeller, IV (D-WV)
 J. James Exon (D-NE)

Slade Gorton (R-WA)
 Albert Gore, Jr. (D-TN)
 Bob Packwood (R-OR)
 Donald W. Riegle, Jr. (D-TN)

Present

Wendell H. Ford (D-KY)

Prior to the May 16, 1985, vote, two amendments in the nature of a substitute to S. 100 had been introduced, one by Senator Christopher J. Dodd (D-CT) and one by Senator Slade Gorton. These amendments were complete substitutes for S. 100 that preempted certain aspects of state law and also would have established

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alternative expedited claims systems for limited recovery of damages in product liability cases. Following the failure to report out S. 100, hearings on the Dodd and Gorton amendments were held by the Consumer Subcommittee on June 18 and June 25, 1985. After these hearings, Commerce Committee Chairman John C. Danforth directed the Committee staff to draft a proposal that combined elements of all these measures. The first draft was released for public comment on July 15, 1985. After review of extensive comments received from the public, including consumer and business groups, the Commerce Committee released a second draft on November 20, 1985. This draft was formally introduced by Senator Danforth on December 20, 1985, as S. 1999. This Bill was co-sponsored by Senators Dodd and Kassebaum. The Consumer Subcommittee held two days of hearings on S. 1999 on February 27 and March 11, 1986.

Witnesses at those hearings, specifically representatives of the professional consumer groups and representatives of manufacturer and insurance groups, testified that the alternative expedited claims system in S. 1999 was too complicated, unworkable and would not achieve its goals of providing speedy but limited recovery as an alternative to litigation for product injuries.

On May 12, 1986, Senator Danforth introduced an amendment, co-sponsored by Senator Dodd, in the nature of a substitute for S. 1999. This amendment replaced the alternative expedited claims systems of S. 1999 with an expedited settlement system that

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imposed incentives on plaintiffs and defendants to settle cases. Those incentives included a limitation on plaintiffs' damage awards. The Danforth-Dodd amendment made a number of other changes in S. 1999. On May 20, 1986, Senator Gorton introduced an amendment in the nature of a substitute for the Danforth-Dodd amendment. The Consumer Subcommittee held hearings on these amendments and other product liability measures before the Committee on May 19 and May 20, 1986.

On June 3, 1986, the Senate Commerce Committee began its markup of product liability legislation. The markup draft bill was an original bill containing the provisions of the Danforth-Dodd amendment to S. 1999. On June 12, 1986, the Senate Commerce Committee adopted an amendment in the nature of a substitute for the original markup draft bill. This amendment contained product liability reform provisions that had been agreed to by Senators Danforth, Gorton, and Kasten as a "core package" of product liability reforms. It contained numerous changes and modifications that had been urged by consumer groups. This "core package" bill was approved by the Senate Commerce Committee by a vote of 16-1. The only member voting against the "core package" was Senator Ernest F. Hollings. On June 12, 19, 24, 25 and 26, 1986, the Senate Commerce Committee continued its consideration of other amendments to the "core package," and ultimately reported an original bill, S. 2760, the Product Liability Reform Act. The recorded vote on S. 2760, which contained the "core package" and

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additional provisions including a provision to expedite settlements, was as follows:

Yes

John C. Danforth (R-MO)
Barry Goldwater (R-AZ)
Nancy Kassebaum (R-KS)
Larry Pressler (R-SD)
Bob Kasten (R-WI)

Paul S. Trible, Jr. (R-VA)
Russell B. Long (D-LA)
Wendell H. Ford (D-KY)
J. James Exon (D-NE)
John D. Rockefeller, IV (D-WV)

No

Bob Packwood (R-OR)
Slade Gorton (R-WA)
Ted Stevens (R-AK)
Ernest F. Hollings (D-SC)
Daniel K. Inouye (D-HI)

Donald W. Riegle, Jr. (D-MI)
Albert Gore, Jr. (D-TN)

S. 2760 was brought up on the Senate Floor in September, 1986. Senator Hollings engaged in a filibuster of the bill. Following a successful motion to proceed, with a vote of 84-13, S. 2760 was set aside by the Senate leadership because of the press of other urgent matters that needed to be completed before Congress adjourned in October. No further action was taken on S. 2760 in the 99th Congress.

100th Congress

On March 6, 1987, S. 666, the Product Liability Reform Act, was introduced by Senators Kasten, Inouye, Danforth, Rockefeller, Kassebaum and Pressler. It was similar to the "core package" that was approved by the Senate Commerce Committee in the 99th Congress, but also contained a provision based on Rule 68 of the Federal Rules of Civil Procedure designed to provide incentives for settlement of product liability cases. Unlike S. 2760, these settlement procedures did not place limits on damages. The

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Consumer Subcommittee, which then was chaired by Senator Albert Gore, held one day of hearings on the bill. The Senate Commerce Committee, then chaired by Senator Ernest F. Hollings, took no further action on S. 666 in the 100th Congress.

The primary activity on Federal product liability legislation in the 100th Congress occurred in the House of Representatives. Congressmen Bill Richardson (D-NM) and Thomas A. Luken (D-OH) introduced H.R. 1115 on February 18, 1987. The Subcommittee on Commerce, Consumer Protection and Competitiveness, held extensive hearings on the need for Federal product liability reform and specific issues including punitive damages reform, joint and several liability, workplace safety, certain defenses, and the affordability and availability of product liability insurance. These hearings were held on May 5, May 20, June 18, July 21, August 6, October 7, and December 17, 1987. Then, the Subcommittee on Commerce, Consumer Protection and Competitiveness met to mark up the bill on November 18, 19 and 20 and December 3 and 8, 1987. H.R. 1115 was reported by the Subcommittee, as amended, on December 8, 1987, by a vote of 11-3. The Subcommittee votes were as follows:

Yes

Philip R. Sharp (D-IN)
Dennis E. Eckart (D-OH)
Bill Richardson (D-NM)
William E. Dannemeyer (R-CA)
Mathew J. Rinaldo (R-NJ)

Howard C. Nielson (R-UT)
Joe Barton (R-TX)

No

James H. Scheuer (D-NY)
Henry A. Waxman (D-CA)
Jim Bates (D-CA)

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Norman F. Lent (R-NY)
James J. Florio (D-NJ)
Donald L. Ritter (R-PA)
John D. Dingell (D-MI)

On May 10, 12, 18, 19 and 24, and June 1, 2, 8, 9 and 14, 1987, the full Committee on Energy and Commerce met to mark up H.R. 1115. On June 14, the Energy and Commerce Committee voted to report H.R. 1115, as amended, by a recorded vote of 30-12, as follows:

Yes

Philip R. Sharp (D-IN)
Thomas A. Luken (D-OH)
Al Swift (D-WA)
Mike Synar (D-OK)
W. J. Tauzin (D-LA)

Dennis E. Eckart (D-OH)
Ralph M. Hall (D-TX)
Bill Richardson (D-NM)
Jim Slattery (D-KS)
Jim Cooper (D-TN)

Frederick C. Boucher (D-VA)
John D. Dingell (D-MI)
Ron L. Wyden (D-OR)
Norman F. Lent (R-NY)
Edward R. Madigan (R-IL)

Carlos J. Moorhead (R-CA)
Mathew J. Rinaldo (R-NJ)
William E. Dannemeyer (R-CA)
Bob Whittaker (R-KS)
Thomas J. Tauke (R-IA)

Donald L. Ritter (R-PA)
Daniel R. Coats (R-IN)
Thomas J. Bliley, Jr. (R-VA)
Michael G. Oxley (R-OH)
Howard C. Nielson (R-UT)

Daniel L. Schaefer (R-CO)
Joe Barton (R-TX)
Jack Fields (R-TX)

NO

James H. Scheuer (D-NY)
Henry A. Waxman (D-CA)
James J. Florio (D-NJ)
Doug Walgren (D-PA)
Cardiss Collins (D-IL)

Mickey Leland (D-TX)
Gerry Sikorski (D-MN)
Jim Bates (D-CA)
Edward J. Markey (D-MA)
Wayne Dowdy (D-MS)

John Bryant (D-TX)
Terry L. Bruce (D-IL)

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H. L. Callahan (R-AL)
Michael Bilirakis (R-FL)

H.R. 1115 then received a sequential referral to the House Committees on Judiciary and on Education and Labor. The Education and Labor Committee held one day of hearings on September 27, 1988, on provisions in H.R. 1115 that affected workplace safety. The House Judiciary Committee, then chaired by Congressman Peter Rodino (D-NJ), took no action on the bill. The sequential referrals ran through the end of the session, so the 100th Congress adjourned without considering H.R. 1115 on the Floor of the House.

101st Congress

In the Senate, a bi-partisan bill, S. 1400, has been introduced by Senators Kasten, Inouye, Danforth and Rockefeller. S. 1400 was referred to the Senate Commerce Committee and was subject to three days of hearings before the Consumer Subcommittee. On May 22, 1990, the Commerce Committee voted 13-7 to report S. 1400 favorably. The votes were as follows:

Yes

Lloyd Bentsen (D-TX)
J. James Exon (D-NE)
Daniel K. Inouye (D-HI)
Charles S. Robb (D-VA)
John D. Rockefeller (D-WV)

Conrad Burns (R-MT)
John C. Danforth (R-MO)
Slade Gorton (R-WA)
Robert W. Kasten (R-WI)
Trent Lott (R-MS)

No

Ernest F. Hollings (D-SC)
John B. Breaux (D-LA)
Richard Bryan (D-NV)
Wendell H. Ford (D-KY)
Albert Gore, Jr. (D-TN)

John F. Kerry (D-MA)
Bob Packwood (R-OR)

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John McCain (R-AZ)
Larry Pressler (R-SD)
Ted Stevens (R-AK)

S. 1400 received a sequential referral to the Senate Judiciary Committee and, upon request, to the Senate Labor Committee.

In the House, Congressmen Luken, Glickman, Synar and Slattery introduced H.R. 2700, which is substantially similar to H.R. 1115 as reported by the Energy and Commerce Committee in the 100th Congress. H.R. 2700 has been referred jointly to the House Committees on Energy and Commerce and on Judiciary.

FOR IMMEDIATE RELEASE

FEBRUARY 4, 1992

THE PRESIDENT'S COUNCIL ON COMPETITIVENESS

"AGENDA FOR CIVIL JUSTICE REFORM IN AMERICA"

IMPLEMENTATION FACT SHEET

Excessive cost and delay in our civil justice system harm the American people and impair their ability to compete in the global marketplace.

Vice President Dan Quayle

Many features of our civil justice system no longer expedite justice or insure fair results. Instead overuse and abuse of the legal system impose tremendous costs on American society.

To address these problems, the President's Council on Competitiveness, chaired by Vice President Dan Quayle, developed 50 recommendations for improving the civil justice system. Reported in the "Agenda for Civil Justice Reform in America," these recommendations help reduce the inordinate cost and delay found in the system. As most of the proposals have been tested in federal or state courts and have proven effective, the Agenda presents a comprehensive approach to effect meaningful change in our overburdened civil justice system.

The Administration is committed to the fair, efficient and early resolution of disputes. This commitment is demonstrated by efforts to implement reform at all levels: Executive branch action, Federal legislation, Federal rules changes, and model state packages.

Executive Action

As a catalyst for civil justice reform, the Administration has already implemented many of the Agenda reforms in the Federal government. To promote more efficient litigation in actions involving the United States Government, on October 23, 1991, President Bush signed Executive Order 12778. To help make the Government's litigators a model for the private sector, the President directed all Federal agencies to encourage voluntary dispute resolution, limit unnecessary discovery, avoid "junk science," and, where appropriate, use the "Fairness" or "loser pays" rule for attorneys' fees. The directive also provides a "litigation checklist" designed to reduce legislative drafting errors that cause uncertainty and unnecessary litigation.

Federal Legislation

On February 4, 1992, President Bush transmitted the "Access to Justice Act of 1992" calling upon Congress to enact reforms requiring federal legislation. Among the Act's provisions are:

Multi-Door Courthouse - Establishes alternative dispute resolution (ADR) programs to provide effective alternatives to trials. Parties would gain the opportunity to choose between several methods of resolving their disputes.

Pre-Complaint Notification - Encourages resolution at the earliest stages, in most cases the right to sue is conditioned upon giving notice to the intended parties of the nature of the dispute.

Fairness Rule - Adopts a "loser pays" rule in cases involving state law brought under the federal courts' diversity jurisdiction. This rule is grounded in the equitable principle that prevailing parties should be made "whole." The loser would pay the winner's legal expenses subject to limits, including when payment would be "unjust."

Federal Rules of Civil Procedure and Evidence

Through the Supreme Court's rulemaking process, the Administration is proposing amendments to the Federal Rules of Civil Procedure and Evidence to help make the system more rational and efficient:

Discovery Reform - Discovery consumes 80 percent of the time and money in litigation. Our proposal will require automatic disclosure of basic or "core information" and mandate discovery planning conferences. After presumptive numerical limits are met, additional discovery would be governed by market incentives.

Expert Evidence Reform - Experts, who unlike other witnesses, are allowed to present their opinions should be required to base their testimony on "widely accepted" theories instead of "junk science." Our proposal requires courts to determine that proposed witnesses are legitimate experts in their field and bans contingency fees paid to expert witnesses in return for a successful outcome.

State Legislation and Rule Changes

Most reforms proposed for the Federal system are equally applicable to the states. As a result, the Administration has published the Civil Justice Reform Model State Amendments and the Model State Punitive Damages Act to assist with reforms in the state systems. Reform at the state level could have a dramatic effect since that is where most litigation occurs.

INTRODUCTION

In 1971, the U.S. lawyer population was one-third of a million; by 1980, it had grown to half a million; in early 1988, it had reached almost three-quarters of a million; and, by the turn of the century, will probably exceed a million. The rate of lawyer population growth has surpassed that of the general population as reflected in the progressive decline of population/lawyer ratios from 1 lawyer for each 695 persons in 1951 to 1 lawyer per 340 persons in 1988.

Table 1. Lawyer Population Size and Population/Lawyer Ratio in Selected Years

Year	No. of Lawyers	Population/Lawyer ratio
1951	221,605	695/1
1960	285,933	627/1
1971	355,242	418/1
1980	542,205	403/1
1985	655,191	360/1
1988	723,189	340/1

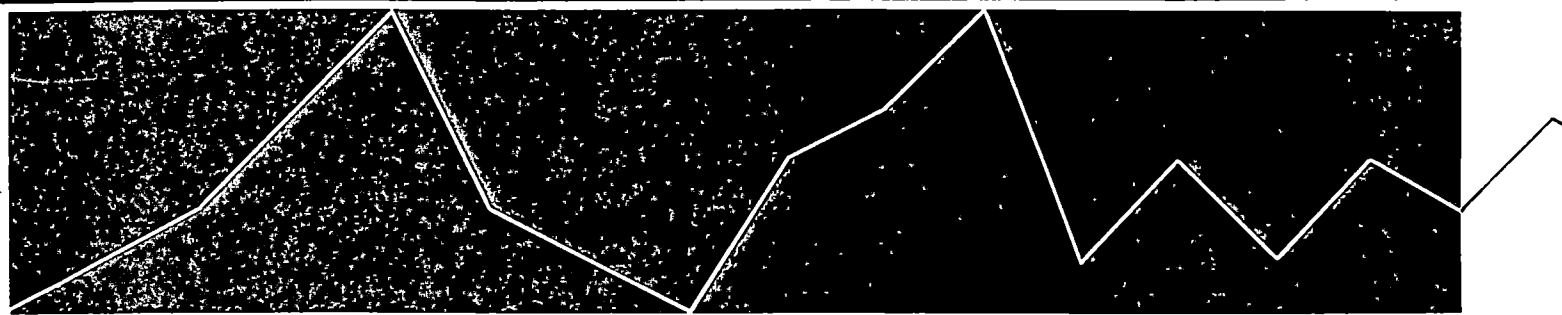
1989 741,000 — from 1991 Statistical Abstract

During the 1970s, growth rate accelerated. Fueled by rising law school enrollments, bar admissions increased from less than 15,000 in 1970 to almost 30,000 by 1980. Since then, the number of yearly admissions has stabilized at or near the 1980 level. The effect of new admissions on lawyer population size is, of course, moderated by mortalities. In the 1970s mortalities averaged about 5,000 per year; since then the yearly average has slightly exceeded 6,000. With yearly admissions at five times mortalities in most of the last 18 years, however, the net increase in lawyer population size has been significant. At the start of 1980, the number of lawyers was 50% greater than in 1971. By 1988, there were twice as many lawyers as in 1971.

Table 2. Relationship of New Admissions and Mortalities to Changes in Lawyer Population Size

	No. of Lawyers Start of Period	Admissions During Period	Mortalities During Period	Net Increase by Period End
1961-70	285,933	120,560	51,251	69,309
1971-79	355,242	231,133	44,170	186,963
1980-87	542,205	231,244	50,260	180,984
1988	723,189			

SUPPLEMENT TO THE LAWYER STATISTICAL REPORT



The U.S. Legal Profession
in 1988

by
Barbara A. Curran
and Clara N. Carson

American Bar Foundation



THE
WILLARD INTER-CONTINENTAL
WASHINGTON, D. C.

intro Jim Jones

80 people

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Event: American Business CouncilDate: 4/7/92

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Name	Office	Phone Number
Presidential Advance Office		456-7565
Presidential Advance Fax Number		456-2820
~~Rob Stee~~ Kn's Goodwin	WH Advance	~~456~~ 456-7565
Sarah Cooper	SLA	183-8006
Jill Hecht	"	" (E) 234-8958
Debbie Taylor	"	"
Kevin Langston	SWANK Audio Visual (IN THE WILLARD)	202-637-7342
Richard Jeter	WNCA AV Lead	(202) 395-4220
Brad Edgar	WH Advance	366-9791
CARLTON HUDSON	Willard Hotel	637-7303
Frances B Frazier	American Business Conference	822-9300
Mary Lou McDonald	American Business Conf.	822-9300
Robert Simon	WH Speechwriting	456-7750
Lois Gledney	WH COMMUNICATIONS AGENCY	757-5000
Jan Nersesian	White House Communications	757-5000
Robert Boston	FCC	703-631-5257
Fred HENSCH	FCC	703-631-5257
Maudie Frazier	American Business Conf.	822-9300
SCOTT BASSETT	WH Press Advance	456-7565
Marcus Page	WH Press Advance	703-696-3622
James W. Hutton	Willard Hotel	202-637-7321
Daniel P. Murphy	U.S. Secret Service	(202) 395-4011 & 395-1724
Markus W. Bohm	U.S. Secret Service	202-435-7353
Vito Bautista	U.S. Press Watch (202)	395-4192
Suzanne Dunning	U.S.S.S.	202-395-4011
BOB STEWART	USSS	202-435-6995



American Business Conference

1730 K Street, NW Suite 1200
Washington, DC 20006
(202) 822-9300
FAX (202) 467-4070

THE VITAL LINK THE EDUCATION INITIATIVE OF THE AMERICAN BUSINESS CONFERENCE

Bob -
Following challenge
of President to business
community in 6/89

The American Business Conference, 100 chief executives of America's most successful, midsize, high-growth companies, asked in 1989 "Can ABC make a difference to the education challenge" emerging from the decline of skilled laborers entering the workforce? The resulting ABC education initiative, THE VITAL LINK, was formally launched at three demonstration sites in September, 1990: Orange County, CA; Fort Worth, TX (in conjunction with the C³ initiative); and New Jersey. Initially intended for non college-bound students, THE VITAL LINK has developed as a component which assists in qualitative education reform in the transition from school to the workplace.

THE VITAL LINK functions as a locally-implemented initiative bringing together businesses, educators, students, and the community and challenges them to collectively define a local plan of action which includes: the development of entry-level standards necessary for entering the workplace; continued interaction between business and the education community within an established and specific structure; a system of testing and assessment of progress (with a student portfolio the suggested means of student evaluation); accountability by all involved (e.g., better entry-level pay for a better qualified student); and a structure for reward.

The American Business Conference owns the role of catalyst in that process, managing from a national level and offering assistance through support, networking, and the communication of resources and information.

ABC recognizes that businesses must articulate their needs to the education community and take an active role in student preparation and process if an effective and productive transition to the workplace is to be achieved. At the same time, ABC acknowledges that the critical ingredient for success is the cooperative communication between business, education and the community. The ABC commitment to THE VITAL LINK is long-term, recognizing that the integrity of success requires continued vigilance, dedication, and commitment to excellence. ABC is optimistic that as educators and businesses share the creative process necessary to stimulate learning, better qualified and motivated students will be prepared to enter the workforce.

(2)

INDIVIDUAL SITE PROGRESS
FOR
ABC's VITAL LINK INITIATIVE

THE VITAL LINK: C³ in Fort Worth, TX

In Fort Worth, TX, THE VITAL LINK has been implemented as a component of Project C³ with the unprecedented cooperation of the Fort Worth Independent School District and the Fort Worth Chamber of Commerce, reaching all students, grades K-12.

Though there are numerous examples of progress, special note should be given to the summer '91 program which was conducted on three separate levels in the Fort Worth healthcare community. In TVL Level I, 40 seventh grade students did intensive work in four medical facilities. 400 seventh grade summer school students visited 21 businesses for a brief look at the workplace in TVL Level II. In TVL Level III, 20 middle school teachers did internships in three medical facilities.

Last summer's program initiated such a positive response that the school district budgeted an additional \$70,000 in funds to promote teacher internships and to provide more transportation for students. The Fort Worth Chamber of Commerce has matched that sum. Thirty addition corporations expressed interest in participating in this summer's program.

THE VITAL LINK: Orange County, CA

Launched in September, 1991, TVL: Orange County has structured cooperation among business leaders and the superintendents and educators in six of the county school districts: Santa Ana, Newport Beach, Irvine, Anaheim, Huntington Beach and Laguna Beach.

A Steering Committee with over twenty business leaders, superintendents and higher education representatives has actively solicited involvement from the community, parents, classrooms, and workplaces, and succeeded in putting in place a volunteer network of cooperative action. Mentorships and donations of workers for "in-kind" classroom assistance bring businesses directly to students.

The needs of the business community in Orange County are as diverse as the student populations at the various participating high schools. For example, specific student populations have been targeted at schools where high immigrant populations identify language skills and comprehensive education as top priorities, while at an academically accelerated school, the term "non college-bound" has been reinterpreted at educators' insistence to include "all students" in the transition from school to the workplace, whenever it may occur. The needs of the local business community have been defined in cooperation with educators in such progressive documents such as business's "Entry Level Skills Requirements" and a document articulating the long-range commitment required of businesses which participate in THE VITAL LINK, as well as a draft of a "SMART CARD" of portfolio evaluation, based on ETS's Tampa model, WORKLINK, but specific to the needs of THE VITAL LINK philosophy and Orange County's school system and businesses.

THE VITAL LINK: New Jersey at pilot sites in Morristown/Montclair and Somerset/Hunterdon counties.

Program coordinators have planned for implementation of components of THE VITAL LINK: New Jersey on two levels: state-wide, and in two local sites, Morristown/Montclair Schools and Somerset/Hunterdon counties.

State wide, large professional associations are being encouraged to participate in VITAL LINK concepts and activities. Favorable response from the New Jersey Chamber of Commerce will help make the state's 200,000 businesses aware of THE VITAL LINK.

THE VITAL LINK: New Jersey's portfolio evaluation component, has paired ETS with the State Department of Education. The ETS's WORKLINK computer resume program will provide a state-wide electronic portfolio system for students to use when applying for jobs. This program, approved by the State Department of Education, will be introduced to the business community by the Private Industry Council. New Jersey will be the first state-wide network of the WORKLINK project, made possible through a special agreement between the State Department of Education and ETS.

Implementation of THE VITAL LINK has occurred on the local level. THE VITAL LINK activities in Somerset and Hunterdon counties are coordinated by the Somerset/Hunterdon Business and Education Partnership. In Somerset county, THE VITAL LINK is currently bringing record numbers of employers into direct contact with students and teachers. Local businesses which have had a history of participation in the schools will continue classroom visits but will work with educators to affect long-term changes in curriculum, focusing on communication skills, problem-solving and work-related skills.

The Morristown/Montclair site has developed at Montclair High School in collaboration with a program called 10K, using the Business Department to run employability skills class for students, grades 10-12. Summer internships and senior work-study programs are planned.

TVL: New Jersey is also included in the New Jersey Unified State Plan for Workforce Development. Additionally, the State Department of Vocational Education is continuing work on a competencies project that has developed competency standards for 25 of 100 occupations.

FOR ADDITIONAL INFO:

CONTACT

MARY LOU McDONALD
MANAGER, COMMUNICATIONS
202-823-9300

should be finally decreed. But I think we're going to win it.

Ambassador Brock. So do I.

Q. Mr. President, can Iraq be persuaded to accept the refugees—

The President. It doesn't have anything to do with Fast Track. I want to talk about Fast Track today, and we'll have no more press conferences today because as I mentioned to an earlier group we've had four in the last 3 days, and that's unfair to the press. [Laughter] Maybe four in the last 4 days—something like that.

Note: The President spoke at 1:21 p.m. in the Cabinet Room at the White House. In his remarks, he referred to William E. Brock and Robert S. Strauss, former U.S. Trade Representatives; Dan Rostenkowski, chairman of the House Ways and Means Committee; George J. Mitchell, Senate Democratic leader; and Thomas S. Foley, Speaker of the House of Representatives.

**Remarks at a Meeting of the American Business Conference
April 9, 1991**

Thank you very, very much. And, Bob, thank you, sir, for that introduction and for letting this distinguished group use this meeting room today. It's always a pleasure to be back here. Let me also salute the ABC's leader, Jim Jones. What a job he's doing. But I remember his effectiveness in the leadership role in the Congress, and I'm glad that those energies that he has are being used and shared by all of you. We have many distinguished visitors with us today, and I won't single them out. I was told that Bill Seidman and Richard Breedon were here. But as I look around, unless they're basking way back in anonymity somewhere, they may not have made it.

But in any event, I'm delighted to see this group. Great to talk to the American Business Conference. We did a little homework on this, and I've been here four times in recent years. And then, of course, we're privileged to have two of your own with us in the administration, Bob Mosbacher and Arthur Levitt. And it's an honor and a

pleasure to, as Bob says, talk to a group that stands for success—a group that admits only medium-sized companies that thrive in the marketplace. But I've got to tell you, I feel a little funny being here. After all, I'm the CEO now of an outfit that's lost money for 33 of the last 35 years. [Laughter]

But in keeping with today's theme—charting economic growth in the nineties—I'd like to talk about our administration's plan for generating more American success stories like your own. Our recent success in the Gulf has renewed Americans' belief in themselves. In just the past couple of months, consumer confidence has soared. And the stock market, of course, has been climbing toward that 3,000 mark. Most economists predict that the recession soon will give way to a new cycle of growth. And, incidentally, we agree with that assessment, inside.

But we can't rest on our laurels. There's an entire world of competition out there. The administration's economic growth package is designed to let people like you do what you do best—create jobs, create new opportunities, create wealth.

Let's start with an issue that we all have to address in the next month. And I think Bob just talked about it; Jim has been participating in a meeting with me in the Cabinet Room at the White House about it—I'm talking about the issue of free and fair trade. As you know, I have asked Congress to extend the Fast Track trade authority.

Fast Track, in my view, is another term for good faith. It guarantees that Congress will accept or reject the very same agreements that our negotiators and their counterparts have worked out. And this doesn't weaken the Congress' power to review agreements; it simply prevents 11th-hour changes that would force negotiators from all countries to start over—to start from scratch.

Our trading partners consider Fast Track a vital test of our reliability. And if we do not retain the Fast Track process, we jeopardize three critical foreign trade initiatives: the Uruguay round of trade talks, the North American free trade agreement, and the Enterprise for the Americas Initiative.

Americans understand the benefits of free trade. In the last 4 years, exports from

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the United States have increased 55 percent, more than twice the rate of import growth. And export business has grown more rapidly than the rest of our economy. This trade boom has helped everyone involved. A North American free trade agreement would place us in the largest integrated market on Earth: 360 million people, \$6 trillion of annual output. It would also give our neighbors access to the technologies and products that they need to improve their standards of living, further clean their environments, and create a true community of nations on our continent.

We also believe strongly in promoting trade. I have asked Bob Mosbacher to lead a governmentwide effort to help small- and medium-sized companies sell their goods and services abroad. I know you support free trade, which is why I want to help you in persuading Congress to extend the Fast Track process. Without it, we will surrender our chance to shape the emerging world economy. Without it, we risk setting off the kind of protectionist warfare that helped produce the Great Depression. And with it, American workers and businesses will be able to demonstrate their strength in a new and vibrant world market.

Let me say that we are approaching this Fast Track process on the Hill in a totally nonpartisan manner. The Democratic leaders, several of the key Democratic leaders, are as enthusiastic about this Fast Track authority granting as I am. And we're approaching it strictly because we believe that it is best for the United States of America. And I also know that it's good for our trading partners as well.

This brings me, then, to a second part of our growth package: creating an educated, innovative work force. Our budget emphasizes the importance of building an America that is ready to take its place in an emerging world economy. It stresses the absolute necessity of an educated nation. We want to reinvent the American school, to create a nation of students, to make sure that education offers opportunity to everyone.

Our education strategy starts with some very obvious truths: that schools succeed when teachers teach; when parents support the schools; when schools accept help from people with skills—local businesses, community colleges, that huge pool of untapped

talent, our retirees; when communities fight harder to rip down barriers that prevent effective teaching—barriers such as crimes and drugs and community indifference.

And we also want to encourage entrepreneurship in education. We will support research into the best teaching methods and techniques. We want to help workers improve their knowledge and skills. Your Vital Link program offers a great way to achieve this goal. And we want to ensure that the American people are the best educated, best motivated in the entire world.

Our economic proposals also sweep away obstacles to free enterprise. What we're trying to do—we're trying to unleash the power of American imagination.

Your organization understands, I'd say better than most, that runaway government spending steals opportunity from private citizens. Last year's budget agreement—controversial though it was—placed real and stringent caps on congressional spending. If Congress wants to spend money now, more money on certain programs, it'll have to make the hard choices. It'll have to raise taxes or take the money from other programs.

This year, for the first time in years, Federal spending will actually increase less rapidly than the inflation. And I can promise you that if Congress sends me these spending bills that break this budget, I will send them back, with a veto message.

But there's lots more to do. We in government must do more. As vice president, I headed the Task Force on Regulatory Relief. And as President, I remain committed to weeding out regulations that prevent people from creating jobs and opportunities. I see some know what over-regulation means. [Laughter] But we're going to continue to do this, and we must. Last year regulations—here's why—last year regulations cost the economy at least \$185 billion, or \$1,700 for every taxpayer. The Government generated more than 5.3 billion hours of paperwork last year. And that's enough to keep 2 million people busy doing nothing but filling out forms.

Our Council on Competitiveness, as chaired by Vice President Quayle, attacks the scourge of unnecessary regulation. We want to let people turn their attention to

the more important and rewarding work of building a prosperous future. We've followed the same approach in looking at our Tax Code. We want a tax system that rewards enterprise. I have repeatedly asked the United States Congress to cut our high capital gains tax. And I can't think of any issue that's been more badly misrepresented than this one. Our critics say that a capital gains cut helps only the rich. And in my view, they are dead wrong.

Here are the facts on it. More than a quarter of all families who file capital gains have annual incomes of less than \$20,000 a year. More than three-quarters of all families who declared make less than Members of Congress. A capital gains cut isn't a sop to the rich. It rewards people who turn good ideas into goods and services—goods and services that people need.

When taxes on entrepreneurship are high, investors have no incentive to risk money on untried businesses and entrepreneurs. Before Congress cut the capital gains rate in 1978, the pool for start-up businesses had virtually dried up. And after the cut, we experienced an investment boom. Between 1978 and 1986, the number of initial public offerings increased nearly 1600 percent, from 45 to 719. The amount of investment seed money increased nearly a hundredfold, from \$250 million to \$22.5 billion. Capital gains payments to the Federal Government quadrupled. This is what happens when you reduce the cost of capital.

We must encourage savings and discourage debt. And for the past 4 years we've taxed capital gains like any other form of income. And at the same time, we have encouraged people to take on debt. Not surprisingly, people have borrowed more and invested less. Home equity lines of credit offer a perfect example. These devices, which let homeowners borrow against their increased home values, have nearly tripled in volume since tax reform.

No other major industrial power taxes capital gains at nearly the rate we do. Germany and Japan enjoy much higher savings and investment rates in part because they don't punish successful investment.

My point is simple: Taxes on growth are taxes on the American dream. We should clear away obstacles to the American

dream. And similarly, we should foster innovation wherever we can.

Our budget advocates increased Federal support for R&D, for research and development, in basic and applied science. It also encourages private-sector innovation by extending the research and experimentation tax credit. Our administration understands the power of knowledge, and we want the Tax Code to reward people who turn their big dreams into revolutionary new goods and services.

And finally, this administration believes in protecting workers' earnings and savings. Our banking reform proposals—they try to modernize the laws that affect our banking system. Let's face it: 1930's regulations and restrictions don't cut it in the 1990's.

To pick just one example, under our current laws, a California bank can open a branch in Birmingham, England, but not in Birmingham, Alabama. Think of the banking system as an irrigation network for the economy. When it works properly, it nourishes the seeds of economic growth. And when it doesn't, companies like the ones represented here can wither and die. Our reform package tries in a very comprehensive way to make our banking system more competitive, up to date, safe and sound.

We also believe in protecting retirees from undue hardship. Eight years ago, Congress adopted measures to guarantee the short-term solvency and long-term stability of the Social Security system. Congress should resist any temptation to undermine that stability by permitting raids on the trust fund balances. We need to honor our promises to the workers and retirees. I know we've got a fight on this one. But I believe we're going to prevail.

I know I have covered a lot of ground, touching on a lot of different issues here, but I wanted to make a point. Our growth package addresses the challenges posed by a new, exciting, rapidly changing world. Our themes: We want to promote growth. We want to create jobs for all Americans. We want to unleash the power of American imagination. We want to ignite people's ambitions, rather than inciting their fears.

Many people call the 20th century the American century. Well, we shouldn't be content with that. The stunning collapse of

should foster inno-

increased Federal research and developed science. It also innovation by extended experimentation ration understands and we want the people who turn their visionary new goods

nistration believes savings and savings. proposals—they try to affect our banking regulations and the 1990's.

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communism in 1989 was no accident. During the 1980's, the Communist world learned that no wall, no barrier can fend off powerful ideas. It saw our prosperity and our vitality. It saw that our way is better. The prosperity of the 1980's, which began with tax cuts and progrowth policies in the United States, transformed the entire world. Our challenge now is to shape the revolution that we started to make the 21st century the next American Century.

And so, I ask your help in that quest. Together, with business working cooperatively with government, we cannot fail.

Thank you all very much for coming to Washington. And may God bless our great country.

Note: The President spoke at 2:07 p.m. in the Great Hall at the Department of Commerce. In his remarks, he referred to Secretary of Commerce Robert A. Mosbacher; L. William Seidman, Chairman of the Federal Deposit Insurance Corporation; Richard Breedon, Chairman of the Securities and Exchange Commission; and Arthur Levitt, nominated to be a member of the Defense Base Closure and Realignment Commission and former chairman of the American Stock Exchange.

Remarks at the Presentation Ceremony for the National Teacher of the Year Award in Slanesville, West Virginia April 10, 1991

The President. Well, please be seated. Kids, it's great to be with you. And you ought to be very happy that I'm here because you don't have to be in school working hard, you see. [Laughter] To all those who handled the arrangements for a complex visit like this, let me at the very beginning express my sincere thanks to you, and we promise to leave right on time so things can get back to normal in this beautiful part of our country.

I want to thank Secretary Alexander for his remarks, for his kind words. Thank all of you for this West Virginia welcome. It's good to see the Governor of this State here,

a friend of education, Governor Caperton, who you met earlier.

I'm told that a former Member of Congress, Harley Stagers, is here. I'm not focusing too well from up here, but if he—they're pointing out here. But anyway—way back over there. But Harley, nice to see you, sir—a man that served his State with great distinction. I want to single out Commissioner Benedict and Superintendent Marockie; John Quam, the director of the National Teacher of the Year Program; and of course, your own principal—and now that I feel a part of this school, our own principal—Gary Kidwell.

Let me say that I'm especially pleased, on this whole broad national education front, to be side-by-side with Lamar Alexander—a former Governor, a man that is committed, a former head of a great university system, now our Secretary of Education—a man who has made it his mission, his sacred mission, to join with the teachers of this school and others all across this country to make America's schools second to none. And very soon, back in Washington, we are going to unveil our National Education Strategy. It's a long-term strategy to make America all that it can be—to spark a nationwide movement that touches every school and every student in America.

But today I want to focus on the fact that, in the end, everything we try to do in education comes down to teaching and learning, to each teacher and each student in our classrooms. There's no better way to make that point than to come here to honor someone Slanesville knows so well, the 1991 National Teacher of the Year, Rae Ellen McKee.

You know, the last time I went to a school, it was just a few miles away from the White House, and I had a third-grade kid, a boy ask me to prove that I was the President. [Laughter] I finally showed him my American Express card. [Laughter] And this time I came prepared, though. I brought the Secretary of Education so there can be no doubt. And then I flew down here on Marine One. And third, when we're done here, just to prove it, I'm going to take Mrs. McKee back up to the White House with me.

We must work together to establish a business climate that encourages growth and investemtn, that lets American business do its thing. That lowers the cost of doing business -- cutting taxes and the deficit to cut the cost of capital.

I ask businessmen to make their decisions on the basis of international competitiveness.

We are the most productive nation on earth, we enjoy the highest standard of living. With one-twentieth of the world's population, we produce one-fourth of the world's goods and services.

Why? Because of our resiliency; because we changed as conditions changed. We've never been afraid of the future, to innovate, to take risks, to test the untested. Because of that America has been the agent of change, led the world, never fearing to be out front.

But this edge is not a birthright. We will only continue to lead, to provide a better life for our children, if today we take steps that guarantee our power to shape the world.

That means change: it means reform. The world is changing, and we must change with it. We must recongnize that there are trends that endanger our leadership.

You feel them everyday, in the most immediate way -- the cost of doing what you do, business.

Our system has become distorted by forces that only comprehensive reform can alleviate. These forces force you to divert expenditures into non-productive tasks, investments with no return.

The Five Pillars of Reelection:

1) health care reform

2) legal reform

We must close those loopholes that litigants can exploit, deprive the system of the instruments used to delay the administration of justice and the resolution of disputes.

The lawsuit in the wrong hands has become an instrument of social engineering, used by special interests unable to enact their agenda -- often an agenda hostile to business -- through normal democratic processes. Much litigation is fueled by an animus toward free enterprise itself.

Engineers sitting around to testify in court cases.

Fear of frivolous lawsuits can discourage innovation without a compensatory addition to the public welfare.

We have ceased to look on the lawsuit as a grim last resort, because our system of civil litigation makes lawsuits preferable to more informal efficient and less rancourous means of resolving disputes. It is extraordinarily easy to initiate a lawsuit, and

extraordinarily difficult to finish one. The system must be changed.

You're called upon to put r&d on hold. The costs of complying with catch-all discovery requests in which, to use the words of one judge, the parties simply exchange filing cabinets. Would that it were that simple.

We must offer alternatives to litigation, the multi-door courthouse.

Loser pays -- we have called for a limited, experimental application of this, to weed out frivolous claims or discourage them from ever being initiated.

FEar of medical malpractice suits alone generates up to \$20 b a year in added medical costs

the Philadelphia woman who sued her doctor because a cat scan distorted her psychic ability to communicate with John Milton; or the litigant who sued a state lottery because she didn't win the grand prize, and was awarded \$400,000 for emotional trauma.

All entertaining, but you understand the seriousness of this issue, and how much it costs -- how much it costs all of us. "Almost half of all U>S> manufacturers have withdrawn products from world markets, according to a recent survey by the Conference Board.... A quarter of US companies have discontinued some forms of product research. Approximately 15 percent of companies have dismissed workers because of stringent product liability laws.

20 yrs. ago, 13 companies did research on fertility. 11 years later there was one..

We have 20 times the number of lawyers as Japan per capita.

whole industries have been destroyed -- for example, the light aircraft industry; once employed 22,800 workers, now 6,000 after a decade.

Talk about lost opportunities: 94,2000 people applied to law school last year -- human capital driven into a profession whose addition to the commonwealth is highly dubious. a huge reservoir of human capital drained into an enterprise whose use is increasingly dubious.

I leave aside for now the rancor and ill-feeling that litigation inspires, the disruptions to the civility of our common life that come from drawn-out duels between lawyers. I can focus instead on the costs to you, on the drain on our productivity and hence on our competitiveness.

These costs are passed along to the consumer in the form of higher prices, with the dampening effect higher prices necessarily entail. Or you have to absorb the higher costs yourselves, lowering your profit margins and increasing your expenses.

3) education reform

English is now the language of international business.

April 1, 1992

MEMORANDUM FOR ANDY FERGUSON

FROM: BOB SIMON 

SUBJECT: STATISTICS

HEALTH CARE COSTS

- o Businesses paid \$186 billion for health care in 1990 -- almost triple what they spent 10 years ago. This is 29% of all health care costs.
- o These costs now represent 45% of all fringe benefits provided to employees, double the share of benefits in 1965.

EXPORTS

- o Merchandise exports rose 30% over the last three years. During that time, the trade deficit has been almost cut in half.

BUSINESS TRAINING

- o Businesses spend \$30 billion a year in formal training for their employees, 1% to 2% of their payroll costs.

Bob --

Here are some possibilities. I'm checking with Education to find the best "can't even write a complete sentence" statistic.

- Only one-third of our students leave grade 12 "competent" in mathematics (1990 data).
- More than two-thirds of our seventeen-year-olds were unable to date the Civil War within the current half-century (1986 data).
- Only [___%] could find France on a map.
- Only about half leave high school understanding government structures and function (e.g., the separation of powers).

Rae

April 1, 1992

NOTE TO RAE NELSON

As requested, attached are some facts which illustrate the poor state of U.S. education:

- o From international studies of academic achievement we find:
 - Americans rank progressively worse on international comparisons. On a 1986 study of science achievement, the U.S. ranked 8th (out of 15 countries) in grade five; 14th in grade 9; and last in grade 12.
 - A 1982 study of mathematics found that the most able U.S. students scored the lowest among comparable students from all participating countries in algebra and were among the lowest in calculus.
 - Despite our poor showing on international mathematics comparisons, about two-thirds of 13-year-old U.S. students felt that they were good at math. Only 23 percent of Korean students, the highest achievers, felt this way.
- o From the National Assessment of Educational Progress, we know that:
 - ✓ - Less than 3 percent of 17-year-olds can write a persuasive letter and only 20 percent can write a simple two-paragraph letter applying for a job.
 - Only 12 percent of 17-year-olds can arrange a series of simple fractions in order of magnitude.
 - Less than one-third of 17-year-olds know in which half century the Civil War occurred.
- o On an international test of geography knowledge, the U.S. was the only country tested in which young adults know less geography than do older adults. In addition, only about one-third of Americans ages 18-24 could locate Vietnam on a map and 45 percent did not where Central America was. Finally, a greater percentage of young adults in Japan, Canada, Mexico, Sweden, and Central America knew the correct population in the U.S.
- o The 1991 average score on the verbal portion of the SAT sank to an all-time low of 422, while the average math score dipped for the first time since 1980 to 474.

Alan Ginsburg

U.S. Department of Labor

Employment and Training Administration
200 Constitution Avenue, N.W.
Washington, D.C. 20210**Facsimile Transmittal Form**Date: 4-1-93Pages to Follow: 1To: Bob SimonFrom: Dolores BattleFax #: 457-6218Tel #: 535-0236Of: WHITE HOUSE

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TRAINING PARTNERSHIPS

INTRODUCTION

Training Partnerships: Linking Employers and Providers

American employers spend about \$30 billion, or 1 to 2 percent of their payrolls annually on formalized training for their workers. About 69 percent or \$21 billion is invested in training that companies design, develop, and deliver using in-house resources. But, 31 percent or \$9 billion is expended on training that is purchased from outside providers.

Several large players have slices of the \$9 billion training provider pie. Four-year colleges and universities get the largest slice at about \$2.9 billion. Community colleges and technical institutes ring up about \$1.4 billion, while vocational and other schools provide about \$760 million in training. Investment in training provided by community organizations and private instructors, are underwritten by government funding accounts for another \$928 million. Professional, trade, and labor organizations provide about \$1.3 billion. And the training industry, composed of large and small suppliers of training assistance, provides about \$1.5 billion in training services to employers annually. (See Figure 1).

Providing training to companies is big business. And it's growing. Technological and process innovations are driving skill requirements upward as workers struggle to adapt to changing times. Complicating this picture is a shifting demographic landscape that has America's existing workforce aging and its entry-level labor pool shrinking, creating a whole new set of challenges around basic skills deficiencies and learning styles. The massive job of preparing workers to fine-tune their existing skills and acquire new ones is often too big for an in-house training department to handle alone. So, increasingly,

employers are turning to outside training providers for assistance.

This report looks at the provider community and how employer-provider relationships are developed and sustained over time. Through checklists and decision-trees, it also attempts to assist employers in making more informed decisions regarding the purchase of provider training; and it aims to help providers understand more fully what drives employers to reach the "make or buy" decision.

Partnerships between employers and training providers such as educational institutions, unions, public job training underwriters, and private training suppliers are common. Over the years, they have become widely recognized as an important tool for cost-effectively meeting the evolving training needs of employers.

As employers have become more sophisticated about the availability, quality, and services of outside training providers, they have moved to build new and more flexible partnerships. Often, they have taken the initiative in developing cost-effective, long-term relationships that spawn a renewable source of skills and knowledge.

Providers have done their part as well to foster and sustain partnerships. They have worked hard to be flexible and adaptable in response to employer needs. And, they have aggressively moved to portray their services in terms of return on investment for both an employer and its community.

In fact, the idea of partnerships has become so popular and grown so quickly in all fields that it has spawned a litany of terms to capture the essence of these endeavors. One of the most well-known and popular phrases to describe relationships between employers and outside providers is *linkages*. Linkages



INTERNATIONAL STATISTICS

INDUSTRIAL PRODUCTION AND CONSUMER PRICES—MAJOR INDUSTRIAL COUNTRIES

Period	Industrial production (1987=100; seasonally adjusted)							Consumer prices (1982-84=100; NSA)						
	United States	Canada	Japan	France	Germany	Italy	United Kingdom	United States ¹	Canada	Japan	France	Germany	Italy	United Kingdom
1982	81.9	76.5	82.9	97.3	90.3	91.7	86.4	96.5	94.9	98.0	91.7	97.0	87.7	95.4
1983	84.9	81.5	85.5	96.5	90.9	88.9	89.6	99.6	100.4	99.9	100.3	100.3	100.8	99.8
1984	92.8	91.4	93.4	97.1	93.5	91.8	89.7	103.9	104.8	102.1	108.0	102.7	111.5	104.8
1985	94.4	96.5	96.8	97.2	97.7	92.9	94.6	107.6	108.9	104.1	114.3	104.8	121.1	111.1
1986	95.3	95.4	96.6	98.0	99.6	96.2	96.9	109.6	113.4	104.8	117.2	104.7	128.5	114.9
1987	100.0	100.0	100.0	100.0	100.0	100.0	100.0	113.6	118.4	104.9	121.1	104.9	134.4	119.7
1988	105.4	105.5	109.2	104.7	103.9	105.9	103.6	118.3	123.2	105.7	124.4	106.3	141.1	125.6
1989	108.1	105.3	115.9	108.9	108.7	109.2	104.0	124.0	129.3	108.0	128.9	109.2	150.4	135.4
1990	109.2	100.8	121.4	110.2	114.6	109.4	103.4	130.7	135.5	111.4	133.2	112.1	159.6	148.2
1991 ^p	107.1		124.2				100.4	136.2	143.1	115.0	137.2	116.0	169.8	156.9
1990: Nov	108.3	97.4	124.3	108.0	116.6	106.8	100.8	133.8	138.2	113.1	135.0	113.2	163.6	152.7
Dec	107.2	96.4	123.8	106.0	116.2	109.6	100.2	133.8	138.1	113.0	134.9	113.3	164.2	152.6
1991: Jan	106.6	96.2	125.8	110.4	119.1	108.6	99.7	134.6	141.7	113.8	135.5	114.0	165.4	153.0
Feb	105.7	95.4	125.7	109.4	118.3	108.4	101.3	134.8	141.7	113.5	135.7	114.3	167.0	153.8
Mar	105.0	95.1	123.0	106.8	118.3	108.2	101.3	135.0	142.3	114.0	135.8	114.2	167.4	154.4
Apr	105.5	96.3	123.3	109.8	117.8	103.3	98.7	135.2	142.3	114.7	136.3	114.7	168.2	156.4
May	106.4	96.9	126.0	109.6	116.9	104.6	98.5	135.6	143.0	115.3	136.6	115.2	168.8	156.9
June	107.3	97.4	122.8	109.7	121.6	110.5	101.5	136.0	143.7	114.8	136.9	115.8	169.7	157.6
July	108.1	97.8	126.6	110.9	119.5	106.3	101.6	136.2	143.8	114.7	137.4	116.8	169.9	157.2
Aug	108.0	97.5	122.8	110.9	117.3	104.1	100.0	136.6	143.9	114.9	137.7	116.8	170.4	157.6
Sept	108.4	98.1	123.7	109.3	117.5	107.6	100.2	137.2	143.7	115.1	138.0	117.0	171.1	158.1
Oct	108.4	97.5	123.9	110.6	117.5	105.5	100.9	137.4	143.4	116.4	138.6	117.4	172.6	158.7
Nov	108.1	97.5	123.8	109.9	119.0	111.1	100.4	137.8	144.0	116.6	138.9	117.9	173.8	159.3
Dec	107.6		122.6				100.1	137.9	143.4	116.0	139.1	118.0	174.2	159.4
1992: Jan ^p	106.7							138.1	144.0			118.6	175.5	159.3

¹ Data relate to all urban consumers.

Source: National sources as reported by Department of Commerce (Bureau of Economic Analysis and International Trade Administration, Trade Information and Analysis).

U.S. MERCHANDISE EXPORTS AND IMPORTS

(Billions of dollars; monthly data seasonally adjusted)

Period	Merchandise exports (f.a.s. value) ¹							General merchandise imports (customs value) ³							General merchandise imports (c.i.f. value)	Trade balance	
	Total ²	Principal end-use commodity category						Total	Principal end-use commodity category							Exports (f.a.s.) less imports (customs value)	Exports (f.a.s.) less imports (c.i.f.)
		Foods, feeds, and beverages	Industrial supplies and materials	Capital goods except automotive	Auto-motive vehicles, parts, and engines	Con-sumer goods (non-food) except auto-motive	Other ²		Foods feeds, and beverages	Indus-trial sup-plies and materials	Cap-ital goods except auto-motive	Auto-motive vehi-cles, parts, and en-gines	Con-sumer goods (non-food) except auto-motive	Other			
1982	216.4	31.3	61.7	72.7	15.7	14.3	20.7	244.0	17.1	112.0	35.4	33.3	39.7	6.5	254.9	-27.5	-38.4
1983	205.6	30.9	56.7	67.2	16.8	13.4	20.5	258.0	18.2	107.0	40.9	40.8	44.9	6.3	269.9	-52.4	-64.2
1984	224.0	31.5	61.7	72.0	20.6	13.3	24.0	⁴ 330.7	21.0	123.7	59.8	53.5	60.0	7.8	346.4	-106.7	-122.4
1985	⁵ 218.8	24.0	58.5	73.9	22.9	12.6	27.3	⁴ 336.5	21.9	113.9	65.1	66.8	68.3	9.4	352.5	-117.7	-133.6
1986	⁵ 227.2	22.3	57.3	75.8	21.7	14.2	35.9	365.4	24.4	101.3	71.8	78.2	79.4	10.4	382.3	-138.3	-155.1
1987	254.1	24.3	66.7	86.2	24.6	17.7	34.6	406.2	24.8	111.0	84.5	85.2	88.7	12.1	424.4	-152.1	-170.3
1988	322.4	32.3	85.1	109.2	29.3	23.1	43.4	441.0	24.8	118.3	101.4	87.7	95.9	12.8	459.5	-118.5	-137.1
1989	363.8	37.2	99.3	138.8	34.8	36.4	17.2	473.2	25.1	132.3	113.3	86.1	102.9	13.6	493.2	-109.4	-129.4
1990	393.6	35.1	104.4	152.7	37.4	43.3	20.7	495.3	26.6	143.2	116.4	87.3	105.7	16.1	517.0	-101.7	-123.4
1991	421.9	35.8	109.2	166.8	39.9	46.1	24.1	488.1	26.5	131.4	121.4	84.8	108.0	16.0	509.3	-66.2	-87.5
1990: Dec	33.6	2.6	9.2	13.2	2.8	3.8	1.9	39.9	2.2	11.6	9.8	6.6	8.3	1.3	41.6	-6.3	-8.0
1991: Jan	34.1	2.7	9.5	13.0	3.1	3.9	1.9	41.5	2.2	12.2	9.9	7.3	8.6	1.3	43.4	-7.4	-9.2
Feb	33.6	3.1	9.7	12.4	2.6	3.9	1.9	39.1	2.1	10.8	9.9	6.7	8.5	1.2	40.9	-5.5	-7.3
Mar	34.0	3.0	8.9	13.5	2.9	3.8	1.9	38.1	2.1	10.1	9.9	6.6	8.0	1.3	39.8	-4.1	-5.8
Apr	35.6	2.9	9.2	14.4	3.4	3.8	1.9	40.1	2.4	11.0	10.4	6.7	8.5	1.3	42.0	-4.5	-6.4
May	35.3	3.0	9.4	13.7	3.5	3.8	2.0	40.1	2.3	11.3	10.1	6.5	8.4	1.5	41.8	-4.8	-6.6
June	35.0	2.9	8.7	14.4	3.5	3.7	1.9	38.8	2.3	10.5	9.8	6.6	8.1	1.4	40.4	-3.8	-5.5
July	35.2	3.1	9.1	13.7	3.6	3.7	2.1	41.2	2.3	10.8	10.4	7.2	9.3	1.3	43.0	-5.9	-7.8
Aug	34.4	2.9	9.1	13.4	3.2	3.7	2.0	40.9	2.1	10.9	9.9	8.0	8.7	1.3	42.7	-6.5	-8.3
Sept	35.3	3.0	8.5	14.3	3.6	3.8	2.1	42.3	2.2	11.2	10.3	7.6	9.6	1.3	44.1	-6.9	-8.8
Oct	37.1	3.2	9.3	14.4	3.8	4.2	2.2	43.4	2.2	11.2	10.6	7.9	10.3	1.4	45.2	-6.3	-8.1
Nov ^r	36.9	3.2	8.8	15.4	3.7	4.1	1.8	41.1	2.2	10.8	9.7	7.2	9.9	1.4	42.8	-4.2	-5.9
Dec	36.1	3.4	8.9	14.2	3.3	3.9	2.4	42.1	2.3	11.0	10.5	7.1	10.0	1.3	43.9	-5.9	-7.7

¹ Includes Department of Defense Military Assistance Program grant-aid shipments.

² Includes undocumented exports to Canada through 1988.

³ Total arrivals of imported goods other than transit shipments.

⁴ Total includes revisions not reflected in detail.

⁵ Total exports are on a revised statistical month basis; end-use categories are on a statistical month basis.

NOTE.—Data shown include trade of the U.S. Virgin Islands.

Source: Department of Commerce, Bureau of the Census.

FACSIMILE TRANSMISSION

Health Care Financing Administration
Office of the Actuary

ADDRESSEE: (Name, Organization, Address)

Bob Simon

FR

KATHARINE R. LEVIT
Chief, National Health Expenditures Branch
Office of National Health StatisticsRoom L-1, EQ05
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Baltimore, MD 21207410
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Health Care Financing Trends

Business, households, and governments: Health care costs, 1990

by Katharine R. Levit and Cathy A. Cowan

This annual article presents information on health care costs by business, households, and government. Households funded 35 percent of expenditures in 1990, government 33 percent, and business, 29 percent. During the last decade, health care costs continued to grow at annual rates of 8 to 16 percent. Burden measures show that rapidly rising costs faced by each sponsor sector are exceeding increases in each sector's ability to fund them.

Increased burden is particularly acute for business. The authors discuss the problems these rising costs pose for business, particularly small business, and some of the strategies businesses employ to constrain this cost growth.

Introduction

National health expenditures consumed 12.2 percent of the gross national product (GNP) in 1990 (Levit et al., 1991) and are expected to rise to 16.4 percent of GNP in the year 2000 (Sonnenfeld et al., 1991). These increases raise concern over the availability of resources to pay for upwardly spiraling health care costs—resources that differ by sponsor. By measuring the burden health care costs impose on each sponsor, we can track mounting pressure within the separate sponsor sectors that will trigger change. These pressures have been building for both business and government for several decades; however, for the household sector, increasing health care cost burdens are only beginning to be felt.

The analysis presented in this article builds on the national health accounts (NHA), which present spending by health care bill payers such as Medicaid, Medicare, and private health insurance. The NHA estimates are rearranged and disaggregated to permit an examination of sponsors of health care who provide funding to bill payers. These major sponsors of health care are business, households, government, and non-patient revenues. Their spending is measured as expenditures for health services and supplies (HSS) that represent the cost of health care excluding research and construction. Some payments for HSS by sponsors pass through health care bill payers such as insurance and government, while other payments (e.g., out-of-pocket, non-patient revenues) flow directly into the health care system (Figure 1). In this article, one additional level of payer is revealed beyond those presented in NHA. Ultimately, however, the individual bears the primary responsibility of paying for health care through health insurance premiums, out-of-pocket costs,

philanthropic contributions to health organizations, income taxes, earnings reduced by increases in employers' health insurance costs, and higher cost of products.

HSS amounted to \$643.4 billion in 1990, an increase of 10.5 percent since 1989, the third consecutive year that HSS has grown at double-digit rates. Over time, the primary responsibility for sponsoring health care costs shifted from the household to other sources, such as business and government. In 1965, households paid for 61 percent of all HSS, with business accounting for 17 percent and public programs accounting for 21 percent. By 1990, the distribution of payments changed, so that each of the major components accounted for approximately one-third of the health care cost (Figure 2). Because of these changes, business is becoming extremely concerned over the costs of health care and the amount of resources being consumed. This was especially true in 1990, as the United States entered a recession. The recession caused growth in consumer spending for most goods and services to slow down, while spending for health care continued to grow unabated.

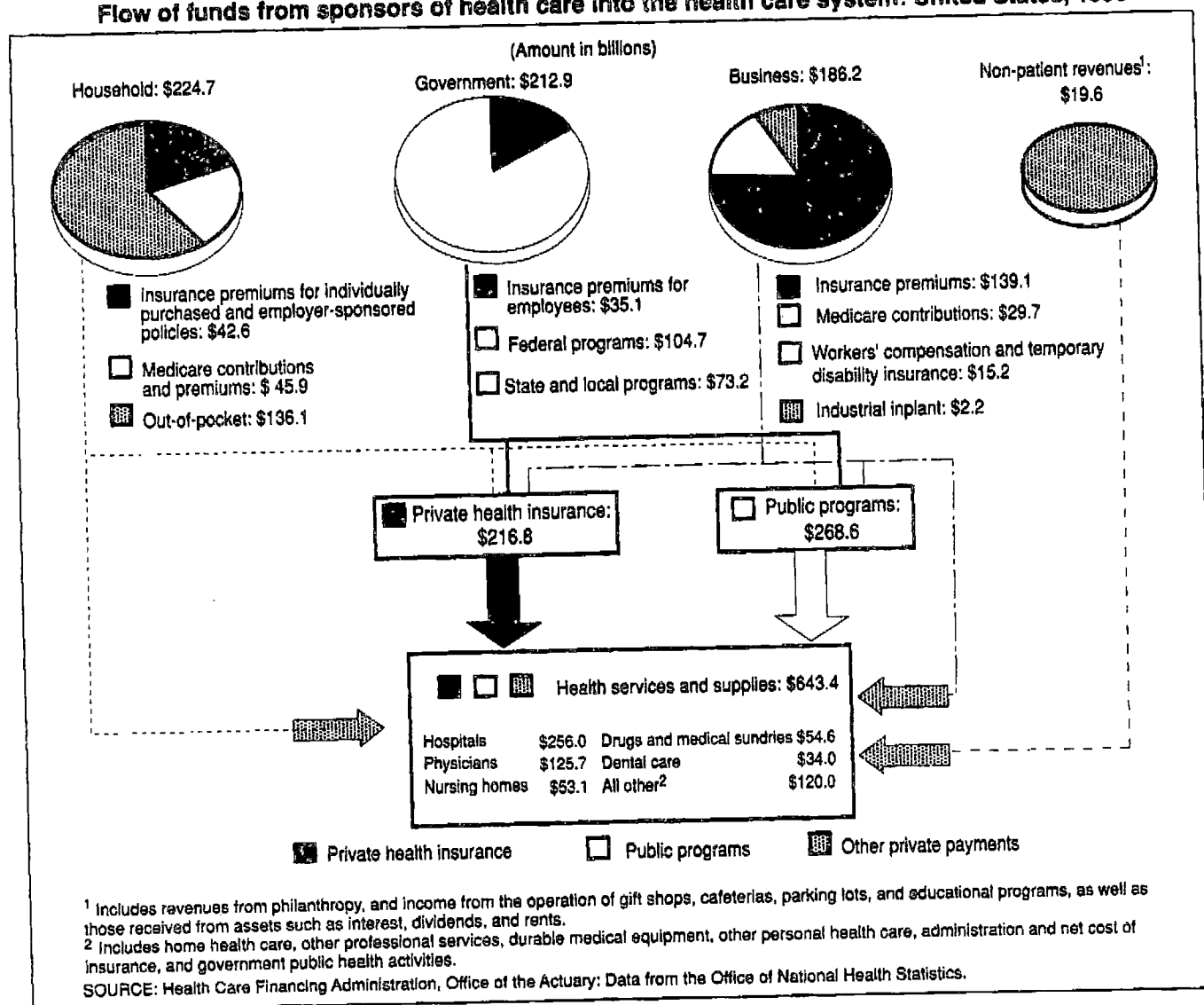
Business paid \$186.2 billion for health care in 1990 (Table 1), 29 percent of HSS. Business estimates include expenditures for all types of organizations—sole proprietorships, partnerships, and corporations. These payments cover employer contributions to health insurance premiums for employees, mandatory employer contributions to the Medicare hospital insurance trust fund, workers' compensation medical premiums, temporary disability medical insurance, and industrial implant services.

The employer contribution to employee health insurance premiums accounts for the largest portion of private business health spending: \$139.1 billion, or 75 percent. The second-largest component is the employer contribution to the Medicare hospital insurance trust fund, which, at \$29.7 billion, holds a 16-percent share. Workers' compensation, temporary disability insurance, and industrial implant health services comprise the remaining \$17.4 billion, or 9 percent of private business health spending. Since the advent of Medicare and Medicaid in 1966, these component shares of private business health care expenditures have remained stable.

Despite stability of each business components' share of business health spending, business' overall share of HSS has risen. Each major component contributed to rising business health care costs and caused the business share of the total health care bill to grow. The expansion of employer-paid insurance in both the number of workers and dependents covered and in breadth of coverage is well known. Employers also shared in paying for public insurance premiums of their employees through Federal Income Compensation Act (FICA) taxes for Medicare. The growth in Medicare contributions was the result of increases in either the annual maximum taxable earnings, on which the employers' and employees' Medicare contribution was applied, or the contribution rates, or both. In 1966, the maximum taxable earnings level was

Reprint requests: Anna Long, Office of National Health Statistics, L-1, EQ05, 6325 Security Boulevard, Baltimore, Maryland 21207.

Figure 1
Flow of funds from sponsors of health care into the health care system: United States, 1990



\$6,600 with a contribution rate of 0.35 percent; by 1990, these had risen to \$51,000 and 1.45 percent, respectively.

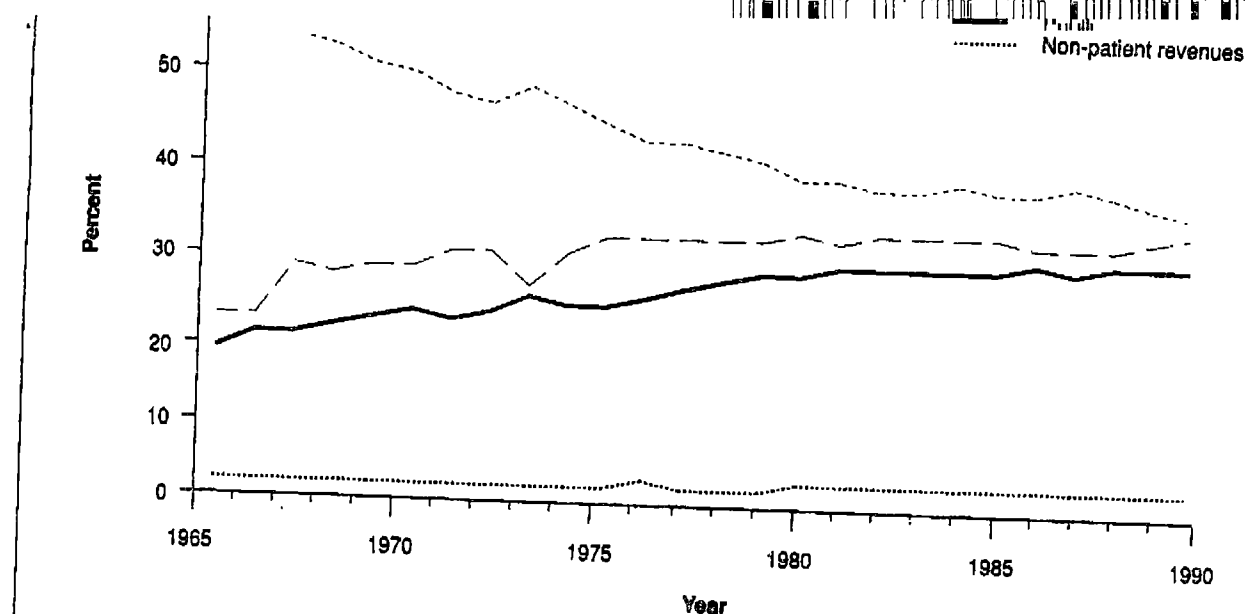
Household spending accounted for \$224.7 billion, or 35 percent, of expenditures in 1990. This total covered spending for health insurance premiums, including the employee contribution to employer-sponsored or individually purchased policies, contributions and premiums to Medicare trust funds, and out-of-pocket payments. Out-of-pocket spending includes copayments, deductibles, and payments for services not covered by insurance (for individuals with either limited or no insurance).

Household spending as a share of HSS has felt the largest impact, as the sources of health care payments changed over time. In 1965, households accounted for 61 percent of all HSS expenditures; by 1990, households accounted for 35 percent (Table 2). This change is in part a result of the advent of Medicare, Medicaid, and other public programs that increased the government role in

paying for health care of the elderly and indigent. Also, employer-sponsored insurance grew dramatically throughout this time period. Insurance is the major cause of business health care cost rising from 17 percent of HSS in 1965 to 29 percent in 1990. Employer-sponsored insurance plans reallocated health care expenses from the household to private and public employers.

Non-patient revenues, including philanthropic funds, providers' interest income, and revenues from other non-patient care activities, were \$19.6 billion in 1990. Non-patient revenue estimates transfer directly from the NHA and have been responsible for 3 percent of HSS since 1980 (Table 2) and 2 percent from 1965 to 1980.

Public expenditures from general revenues, which include spending for some of Medicare and all of Medicaid, reached \$212.9 billion in 1990. This spending accounts for 33 percent of HSS. Public expenditures in this payer taxonomy include payments for health care programs such as Medicaid, Medicare, U.S. Department



SOURCE: Health Care Financing Administration, Office of the Actuary: Data from the Office of National Health Statistics.

of Defense, maternal and child health, and other Federal and State and local programs. For the purpose of realigning payments to the sponsors of health care, the estimates for Medicare include only general revenue funds. These funds flow into the Medicare trust fund from taxes. The other sources of funds for Medicare, premiums and contributions, are allocated to the health care sponsor (households or business) that paid them. Public expenditures also include insurance premiums for employees of government agencies. In 1990, these insurance premiums amounted to \$9.2 billion for Federal employees and \$25.9 billion for State and local employees.

Business expenditures

In 1990, expenditures by private business accounted for 29 percent of health services and supplies, or \$186.2 billion. Private business financed health care through contributions to the Medicare hospital insurance trust fund (\$29.7 billion), payments for the medical portion of workers' compensation and temporary disability insurance premiums (\$15.2 billion), and industrial implant health services (\$2.2 billion). The primary method of business support of health care is through the provision of health insurance for employees. The premiums for health insurance cost business \$139.1 billion in 1990, an increase of 10.6 percent from 1989.

These aggregate private business health insurance premiums summarize the experience of business nationally. They represent the experience of all sizes of establishments in all industries. These premiums for hospital, medical, dental, prescription drug, and vision coverage include those paid to insurance companies, Blue Cross and Blue Shield organizations, and health maintenance organizations, as well as the costs incurred by businesses that self-insure health care benefits. These aggregate private business health insurance premiums cover only the employer contributions for policies of current workers, retirees, former workers, and dependents. They measure the aggregate financial impact on business of the provision of health care benefits to workers.

Other private sector surveys report growth rates for employer-sponsored health insurance that are higher than, although not necessarily inconsistent with, those estimated in this article. A. Foster Higgins (1991) reports growth rates in premiums per covered employee of 21.5 percent for fee-for-service plans in 1990 and for all plans of 17.1 percent. The Health Insurance Association of America (HIAA) survey cites premium increases of 14 percent per covered worker (Sullivan and Rice, 1991). Close examination of these statistics reveals differences in what these growth rates measure (employer-only versus employer and employee costs; aggregate versus per employee costs) and scope of business (and governments) covered.

Table 1
Expenditures for health services and supplies, by type of payer:
United States, selected calendar years 1965-90

Type of payer	1965	1970	1975	1980	1985	1986	1987	1988	1989	1990
Amount in billions										
Total	\$38.2	\$69.1	\$124.7	\$238.9	\$407.2	\$438.9	\$476.8	\$526.2	\$582.1	\$643.4
Private	30.3	50.1	86.2	162.1	278.9	302.9	327.2	362.8	397.5	430.4
Private business	6.5	15.1	28.8	64.8	115.0	127.3	133.6	153.1	169.7	186.2
Employer contribution to private health insurance premiums	5.4	11.2	20.9	48.4	85.4	93.6	96.7	112.9	125.7	139.1
Employer contribution to Medicare hospital insurance trust fund ¹	0.0	2.1	5.0	10.5	20.3	23.3	24.7	26.3	28.4	29.7
Workers' compensation and temporary disability insurance	0.8	1.4	2.4	5.1	7.8	8.8	10.5	12.0	13.6	15.2
Industrial inplant health services	0.2	0.3	0.5	0.9	1.4	1.6	1.7	1.9	2.1	2.2
Household	23.1	33.6	54.9	90.3	152.0	182.7	179.8	194.3	210.3	224.7
Employee contribution to private health insurance premiums and individual policy premiums	4.1	4.6	8.9	16.2	28.4	28.9	35.3	34.9	39.2	42.6
Employee and self-employment contributions and voluntary premiums paid to Medicare hospital insurance trust fund ¹	0.0	2.4	5.7	12.0	24.0	27.6	29.5	31.4	33.8	35.7
Premiums paid by individuals to Medicare supplementary medical insurance trust fund	0.0	1.0	1.7	2.7	5.2	5.2	6.1	8.7	11.2	10.2
Out-of-pocket health spending	19.0	25.6	38.5	59.5	94.4	100.9	108.8	119.3	126.1	136.1
Non-patient revenue	0.6	1.5	2.5	7.0	12.0	12.9	13.8	15.4	17.5	19.6
Public	7.9	18.9	38.5	76.7	128.3	135.9	149.6	163.4	184.6	212.9
Federal Government	3.4	10.4	21.3	42.5	69.0	70.4	77.3	84.2	96.2	113.9
Employer contributions to private health insurance	0.2	0.3	1.2	2.2	4.3	3.9	4.9	6.4	8.1	9.2
Adjusted Medicare	0.0	2.0	3.3	11.1	20.4	18.5	20.0	20.8	25.5	31.5
Medicare	0.0	7.6	16.4	37.5	72.2	77.4	83.4	90.5	102.6	111.2
Less Medicare hospital trust fund contributions and premiums	0.0	4.7	11.3	23.7	46.6	53.7	57.3	61.0	65.9	69.5
Less Medicare supplementary medical insurance premiums	0.0	1.0	1.7	2.7	5.2	5.2	6.1	8.7	11.2	10.2
Health program expenditures (excluding Medicare)	3.3	8.2	16.8	29.2	44.3	48.0	52.4	57.0	62.6	73.1
Medicaid	0.0	2.9	7.4	14.5	23.1	25.4	27.9	31.0	35.4	42.9
Department of Veterans Affairs	1.2	1.8	3.5	5.9	8.6	9.1	9.6	10.0	10.6	11.4
Department of Defense	1.0	1.8	2.8	4.3	7.6	8.4	9.3	9.8	10.4	11.5
Other programs ²	1.2	1.8	3.0	4.4	4.9	5.2	5.6	6.2	6.2	7.4
State and local government	4.5	8.5	17.2	34.2	59.3	65.5	72.3	79.1	88.4	99.1
Employer contributions to private health insurance	0.3	0.6	1.9	6.7	16.0	16.7	17.9	20.2	23.4	25.9
Employer contributions to Medicare hospital insurance trust fund	0.0	0.2	0.7	1.3	2.2	2.7	3.1	3.3	3.7	4.1
Health expenditures by program	4.2	7.6	14.6	26.3	41.1	46.1	51.4	55.6	61.2	69.1
Medicaid	0.0	2.5	6.1	11.6	18.6	19.8	22.9	23.9	26.8	32.3
Hospital subsidies	2.6	3.4	5.2	6.2	7.8	10.0	11.2	12.4	13.1	14.1
Other programs ³	1.6	1.8	3.3	8.5	14.7	16.3	17.3	19.3	21.3	22.7

¹Includes one-half of self-employment contribution to Medicare hospital insurance trust fund.

²Includes Maternal and Child Health, Vocational Rehabilitation, Alcohol, Drug, and Mental Health Administration, Indian Health Service, Office of Economic Opportunity (1965-74), and other miscellaneous general hospital and medical programs and public health activities.

³Includes other public and general assistance, Maternal and Child Health, Vocational Rehabilitation, and public health activities.

SOURCE: Health Care Financing Administration, Office of the Actuary: Data from the Office of National Health Statistics.

Employers' role in providing insurance

Private health insurance became established as a fringe benefit of employment during World War II. During this period of labor shortages, employers began to use fringe benefits, including health benefits, to entice marginal non-workers into the labor force and to discourage existing workers from changing jobs (Starr, 1982). Since World War II, private health insurance has grown to become an acknowledged and accepted "responsibility" of business, a role that continues today.

Business accepted the function of primary provider of health insurance for the non-elderly population, encouraged by insurance companies, government, and employees. First, insurers preferred employer groups because they reduced private health insurers' risk of adverse selection and provided insurance companies with a mechanism for reducing their marketing, enrollment, and premium collection costs below those encountered when selling to individuals.

Second, government supported employer-sponsored private health insurance by offering tax incentives that

Table 2
Percent distribution of expenditures for health services and supplies, by type of payer:
United States, selected calendar years 1965-90

Type of payer	1965	1970	1975	1980	1985	1986	1987	1988	1989	1990
Total	100	100	100	100	100	100	100	100	100	100
Private	79	73	69	68	68	69	69	69	68	67
Private business	17	22	23	27	28	29	28	29	29	29
Household (individual)	61	49	44	38	37	37	38	37	36	35
Non-patient revenue	2	2	2	3	3	3	3	3	3	3
Public	21	27	31	32	32	31	31	31	32	33
Federal Government	9	15	17	18	17	16	16	16	17	18
State and local government	12	12	14	14	15	15	15	15	15	15

NOTE: Columns may not add to totals shown because of rounding.

SOURCE: Health Care Financing Administration, Office of the Actuary: Data from the Office of National Health Statistics.

encouraged business to assume this role of health insurance sponsor. Government tax rules treated health insurance premiums as a business expense that reduces a business' gross taxable income. It also excluded these benefits from workers' taxable gross income, raising the effective wage rate to the employee without incurring additional cost to the employer. These tax incentives promoted public policy objectives of making health care accessible and affordable without direct government intervention.

Third, employees continue to view health insurance benefits as a major factor in their decisions to change or remain in a job (Katz, 1991). Insurance companies, government, and workers have reinforced business' historical role as providers of health insurance. Therefore, businesses today believe that employers should be the source of health insurance benefits for their employees and dependents (Woolsey, 1991).

Whereas both employers and employees derive advantages from employers' role in sponsoring health insurance, pressure for change is mounting, as recorded by recently conducted polls. A Robert Wood Johnson Foundation survey of business executives found that, despite its positive aspects, changes would be required to enhance the health care system, particularly in the area of value received for expenditures (Johnson, 1991). In addition, more than one-third of large employers surveyed by the Washington Business Group on Health would favor a national health system if medical costs grow over the next 3 years at rates of 15 percent or more (Woolsey, 1991). As health care costs reach the projected 16.4 percent of GNP by the year 2000 (Sonnefeld et al., 1991), the burdens borne by business will have an ever-increasing impact. The rising costs, in addition to these attitudes expressed by business, will be instrumental in triggering any health care reform.

Rising business health care costs

Employers' role in providing health care coverage has existed for more than half of this century. Both employers and employees view this role as an important benefit in attracting and keeping workers. But the cost of health care sponsored by employers has increased almost threefold over the past decade alone—from \$64.8 billion in 1980 to \$186.2 billion in 1990. Three-quarters of 1990 business expenditures for health care—\$139.1 billion—

went for the employer share of private health insurance premiums. These premiums financed 22 percent of costs for HSS in the United States in 1990 and provided coverage to 140.4 million workers and their dependents and another 11.4 million non-workers and their dependents (Fu Associates Ltd., 1991).

The burden that health care imposes on business has soared over the past 25 years (Table 3). In 1990, employer health care costs consumed 3.9 percent of the gross private domestic product of the Nation, almost four times the share these costs represented in 1965. As a share of total compensation of labor, business health care spending climbed to 7.1 percent in 1990, up from 4.9 percent in 1980 and 2.0 percent in 1965. In 1990, health care costs represented 45.5 percent of all fringe benefits provided to employees, more than double the share of fringe benefits in 1965 (22.4 percent). To gauge the size of health care expenditures, business health care expenditures can be compared with profits. These statistics show that health care spending by business equaled 61.1 percent of corporate profits¹ before tax and was greater than the amount of corporate profits after tax (107.9 percent) in 1990. These comparisons highlight business concerns about the burden that rising costs are placing on their ability to continue providing these benefits.

Rising health care costs have had a profound effect on the coverage of workers. The U.S. Bureau of the Census conducts the Current Population Survey that collects information on the health insurance status of individuals each March. Data for 1990 reveal that three-quarters of the uninsured population, 25.0 million persons, reside in families in which the greatest income earner works full time. These data show an estimated increase of 28 percent in the number of uninsured full-time workers and their dependents since 1980. During this time period, the number of all full-time workers and their dependents increased 7.9 percent (Fu Associates Ltd., 1991). This shows that full-time employment does not guarantee health insurance coverage and has become less able to guarantee coverage over the last decade. If the percentage of full-time workers and their dependents that were uninsured in 1990 had been the same as in 1980,

¹A similar concept of "profits" for sole proprietorships and partnerships is not available.

Table 3
Expenditures for health services and supplies as a percent of business income, expense, or profit:
United States, selected calendar years 1965-90

	Total business receipts ³	Gross private domestic product ⁴	Business health spending as a share of				
			Labor compensation			Corporate profits ^{1,2}	
			Total compensation ⁵	Wages and salaries ⁵	Fringe benefits ⁵	Before tax	After tax
				Percent			
1965	0.4	1.0	2.0	2.2	22.4	8.4	14.0
1970	0.7	1.7	3.1	3.5	29.2	19.8	36.1
1975	0.8	2.1	3.9	4.5	28.5	21.3	34.3
1980	0.9	2.7	4.9	5.8	31.7	27.3	42.6
1985	1.2	3.3	6.1	7.2	38.9	51.3	89.9
1986	1.3	3.4	6.3	7.5	40.5	57.5	110.4
1987	1.3	3.4	6.2	7.3	40.8	48.5	90.1
1988	1.3	3.6	6.5	7.7	43.2	48.3	84.8
1989	NA	3.7	6.9	8.1	45.1	55.1	98.3
1990	NA	3.9	7.1	8.5	45.5	61.1	107.9

¹Based on July 1990 data from the U.S. Department of Commerce national income and product accounts.

²A similar concept of "profits" for sole proprietorships and partnerships is not available.

³Business receipts for sole proprietorships and total receipts of partnerships and corporations based on Internal Revenue Service data.

⁴Reflects health costs embedded in the unduplicated value of intermediate and final goods; based on data from the U.S. Department of Commerce national income and product accounts.

⁵For employees in private industry.

⁶Estimated. U.S. Department of Commerce benchmark revisions will not be available until November 1991.

NOTE: NA is not available.

SOURCE: Health Care Financing Administration. Office of the Actuary; Data from the Office of National Health Statistics.

business' share of HSS and the burden that these costs imposed on business would be even greater than shown here.

Dilemmas of small business

The business share of HSS, 29 percent in 1990, is not borne evenly across all business. Small employers are disadvantaged in their ability to provide health insurance benefits to their workers. The problem of uninsured workers manifests itself most noticeably in small business with fewer than 100 workers. These establishments employ 40.8 million workers, or two-fifths of civilian employees in full-time or part-time jobs. The U.S. Department of Labor conducted surveys on workers in small establishments (fewer than 100 employees) for 1990 and in medium and large establishments for 1989. These statistics show that 92 percent of full-time employees in medium and large firms participate in employer-sponsored plans, compared with 69 percent of full-time employees in small establishments (U.S. Bureau of Labor Statistics, 1991).

Part of the cause of uninsured employees of small businesses can be linked to the health insurance premium costs faced by these companies. Employer-sponsored health insurance premiums paid by small business exceed those paid by larger companies for the same benefit package. These higher costs affect small business' ability to compete with larger firms in both labor and product markets.

Higher costs in the provision of health insurance benefits for small business result from several factors. First, the health insurance marketplace is becoming more fragmented. Increasingly, insurers are basing insurance rates on an individual company's claims history

(experience rating), rather than pooling all sizes of employers in an area to share the insurance risk (community rating). This process segments the insurance market into lower risk (i.e., lower cost) large employers and higher risk (i.e., higher cost) small employers (Arnett and Trapnell, 1984).

Second, larger companies are also more likely to take advantage of cost savings resulting from self-insuring employee health care. Self-insuring reduces costs to employers by eliminating State premium taxes, profits paid to insurance companies, and the marketing costs and commissions embedded in premiums, while retaining the interest earned on reserves held to cover claims. Self-insured businesses also can eliminate State-mandated benefits (McDonnell et al., 1986).

Third, small business' competitive disadvantage in the acquisition of health insurance is compounded by tax laws that discriminate against small firms in favor of corporations. Corporations can write off 100 percent of their medical premium expense. Small businesses that are classified as sole proprietorships, partnerships, and S-corporations are permitted to deduct only 25 percent of premiums.

Finally, it is possible that insurers may choose not to provide coverage for certain industries where small businesses are prevalent. Industries include those with higher risk occupations, higher likelihood of litigation (e.g., physicians and lawyers), or higher incidence of drug and alcohol abuse or of acquired immunodeficiency syndrome (AIDS). These exclusions constrain many small employers by reducing the number of companies from which they can seek coverage.

High insurance premiums frequently force small businesses to change policies in search of more favorable rates. New policies subject employees to pre-existing-condition exclusions, jeopardizing access to care for employees most in need of coverage.

Small businesses face additional problems from the 1985 Consolidated Omnibus Budget Reconciliation Act (COBRA) that forces employers with 20 or more employees to make available group insurance protection to former employees for 18 months after separation and for their dependents for 3 years. COBRA mandates that premiums charged by employers equal no more than 102 percent of the premiums paid by similar active workers. According to recent studies, COBRA claims per worker exceeded those of active employees by 33-100 percent, (Huth, 1991) and smaller companies reported higher claims costs per beneficiary than do larger ones (Towers Perrin/The National Association of Manufacturers, 1991). COBRA drives up employer premium costs because active workers must subsidize higher costs of former employees. This legislation is particularly adverse to small businesses that not only face higher costs for their COBRA beneficiaries but that frequently experience higher employee turnover rates.

Retiree health care

Employers offering health benefits to current and future retirees face new challenges that will likely increase their future share of health care costs. Most employers operate on a pay-as-you-go basis for retiree health care, purchasing policies or paying claims as they arise. As the number of retirees increases in relation to the number of current workers, these benefits will become more difficult to fund. Beginning in 1993 and gradually implemented over many years, the Financial Accounting Standards Board (FASB) will require employers to account for accrued retiree health benefit liabilities from the date that employees are hired until they become eligible for benefits. Estimates of the accrued cost of these benefits that will enter financial statements range from \$400 billion to \$2 trillion (Adler, 1991). FASB will force employers to recognize future health insurance liabilities as they are incurred, greatly increasing the current overall book value of employer-sponsored health care.

Business strategies in containing costs

Employers are taking steps aimed at reducing their share of health care costs. Elimination of employer-sponsored health insurance coverage is one drastic solution to rising health care costs that businesses—particularly small ones—have used. Some large companies have sought temporary relief from the relentless rise of health care costs through self-insurance. That option is less viable for small business.

Seventeen States have already instituted and another 10 are considering exemptions from State-mandated benefits for small firms that have not contributed to health insurance coverage for their workers during the past 12 months. State-mandated benefits raise costs faced by business in supplying health care coverage to employees because a specific set of benefits must be included in employer-sponsored health plans. The "bare-bones" policy alternative permits employers to provide basic private health insurance coverage for employees who previously lacked employer-sponsored coverage.

Some small firms are experimenting with 50/50 coinsurance plans that require employees to contribute

one-half the cost of medical care services up to a certain limit before stop-loss coverage kicks in. These plans provide employees with an incentive to use services judiciously, as they must contribute one-half of the cost from out-of-pocket sources. These plans can mean premium reductions of 10-20 percent from those charged for conventional plans that require employees to contribute 20 percent of the cost of services (Landes, 1991).

The rising cost of retiree health care and the new FASB requirements have caused employers to re-evaluate their retiree health benefit programs. Business has employed or is considering strategies to minimize future health care costs by this group of beneficiaries. These include fixing employer contributions to future health care plans; gauging employer contribution to length of employment and increasing the basic eligibility requirements; offering minimal plans to younger retirees; increasing deductibles and out-of-pocket maximum expenditures by retirees; and requiring active workers to contribute currently to future health care benefits (Quinn, 1991).

Business summary

In summary, employer-sponsored private health insurance has been in existence for half a century in the United States. Historically, employers believed their role in sponsorship of health insurance for their workers to be appropriate and worthwhile. Prospective workers typically examine these benefits when choosing a job and often make their employment decision based on the availability and breadth of these benefits. But rapidly rising health care costs are forcing businesses to re-evaluate their role with regard to private health insurance. Small businesses in particular face tremendous problems in affording and keeping this benefit for their employees, while still maintaining competitive prices for their products. Many strategies are being used in an attempt to reduce these costs. Through 1990, however, a reduction in overall cost or in business' share of the Nation's rapidly rising health care bill does not appear to have occurred.

Households

Households spent \$224.7 billion on health care during calendar year 1990, an increase of 6.8 percent from 1989. The largest single category of payments by families is for out-of-pocket medical expenditures, financing 21.2 percent of HSS expenditures in 1990. These expenditures pay for services not covered by insurers and for copayments and deductibles required by insurers for covered health care services. Additional family expenditures for health care include spending for health insurance purchased individually or through employers, contributions to the Medicare hospital insurance trust fund through payment of FICA taxes, a small amount of voluntary premiums paid by individuals to the Medicare hospital insurance trust fund, and premiums paid to the Medicare supplementary medical insurance trust fund.

The spending for which individuals are responsible has grown at a slower pace than overall health care costs for most years since 1965, primarily because of the falling share of health expenditures paid from out-of-pocket

sources. Public and private health insurance assumed greater responsibility for health care costs during this period. Since 1980, contributions to the Medicare hospital insurance trust fund and premiums paid to the Medicare hospital and supplementary medical insurance trust funds have risen as a share of total health care costs. These increases have offset most, but not all, of the small declines in the out-of-pocket share of health care costs.

As a result of slower growth than that of overall health care costs, households' share of the Nation's health care bill fell from 61 percent in 1965 to 49 percent in 1970, 38 percent in 1980, and 35 percent in 1990. Although this share continued to fall during the past decade, it fell less rapidly than it had previously. It appears that efforts by other sectors to shift some proportion of the costs back to households have slowed the decline in share paid by households, but not to the point that that share has begun to rise.

Health care costs financed by households must be funded from available income. Therefore, their share of adjusted personal income is used to measure the burden of such costs on families. After maintaining a stable share from 1965 to 1980, households' share of personal income devoted to health care began to gradually rise from 4.1 percent in 1980 to 5.0 percent in 1990 (Table 4). Calculations made using data from the 1989 Bureau of Labor Statistics' Consumer Expenditure Survey show health care spending as a share of income after taxes at 4.9 percent for all households. Households where the reference person is 65 years of age or over show a significantly higher share of income going to health care—11.5 percent in 1989. The elderly not only use

more care, some of which must be paid from income, but these out-of-pocket costs affect the elderly's disposable income disproportionately.

Households are insulated from the full costs of health care. For services covered by private insurance, households are responsible for copayments and/or deductibles, with the insurance paying a substantial portion of the charges. Families make their decision to purchase and utilize services based on a greatly reduced out-of-pocket perceived price at the point of purchase—prices that only include a portion of the full costs. The average price of the remaining portion of privately insured services is more adequately reflected in prepaid private health insurance premiums. To the extent that the cost of this premium is shared with an employer, the household may be unaware of and/or unaffected by the true price paid for health care services. Private health insurance plays an important social function by spreading one person's excessive medical costs over all similarly insured persons. However, the benefits of risk sharing through insurance also provide incentives for overuse of services and the purchasing of higher priced services than would otherwise be the case.

Recent surveys indicate that households in general do not currently feel burdened by the costs of health care. Results of an Employee Benefit Research Institute (EBRI) survey of citizens' attitudes toward the health care system indicated that Americans are satisfied with the health care system as it currently exists and would balk at major share increases in their responsibility for financing employer-sponsored health insurance premiums. Only one-half of the respondents were willing to pay \$2,000 for their share of premiums, despite the fact that employers pay considerably more per employee for this benefit (Shalowitz, 1991).

The Federal Government promotes the use of employers as a mechanism for providing health insurance through the tax system. By excluding the employer-paid portion of employer-sponsored health insurance premiums from employees' taxable gross income, the Federal Government partially subsidizes health care benefits. It also achieves policy objectives in providing a mechanism for affordable and accessible health care for more workers than would otherwise be the case. In fiscal 1990, the Federal Government experienced revenue loss of \$26.4 billion as a result of the exclusion of this employer benefit from individual's gross income. In other words, individuals would have paid an additional \$26.4 billion in taxes if the employer-paid portion of health insurance premiums were taxable income to individuals (Executive Office of the President, 1991). This amount is not included in the accounting framework presented in this article.

Public sector payments

In 1990, Federal and State and local governments paid \$212.9 billion for the financing and delivery of health care services. Governments as employers spent \$35.1 billion providing health insurance coverage for its workers. In their role of promoting public policy and redistributing income, governments also target specific population groups with their health care spending. This

Table 4

Expenditures for health services and supplies as a percent of household (individual) income: United States, selected calendar years 1965-90

Year	Individual health spending as a share of adjusted personal income ²	Health spending as a share of income after taxes ¹	
		All ages	Reference person 65 years of age or over ³
		Percent	
1965	4.2	—	—
1970	4.1	—	—
1972-73	—	5.1	8.9
1975	4.3	—	—
1980	4.1	—	—
1985	4.7	4.8	11.0
1986	4.7	4.9	11.8
1987	4.9	4.6	10.7
1988	4.9	5.0	12.5
1989	4.9	4.9	11.5
1990	5.0	—	—

¹Calculated from the Consumer Expenditure Integrated Survey of the U.S. Bureau of Labor Statistics. In this survey, the institutionalized population, including nursing home residents, were excluded, so spending for nursing home care covers only a small portion of total days of care.

²Personal income adjusted to include personal Medicare contributions and to exclude certain transfer payments (medical benefits for Medicare, Medicaid, workers' compensation, and temporary disability insurance).

³Consumer expenditure data are tabulated by age of reference person. These households may include some individuals under 65 years of age. Similarly, individuals 65 years or over who reside in households where the reference person is under 65 years of age are excluded.

SOURCE: Health Care Financing Administration, Office of the Actuary: Data from the Office of National Health Statistics.

encompasses expenditures such as those by the U.S. Departments of Defense and of Veterans Affairs for the operation of their own facilities. Also included are grants for needy population groups, such as the elderly, the poor, mothers and children, American Indians, school children, and the disabled; expenditures for public health activities; and State and local government hospital subsidies. Excluded from government expenditures are dedicated tax revenues paid into trust funds for specific programs, such as Medicare. Only general revenue contributions in support of programs such as Medicare are included. Government expenditures for health increased 15.3 percent from 1989 to 1990, 4.8 percentage points faster than the growth in overall health spending. This caused the share of expenditures financed by the public sector to increase slightly to 33 percent. Increases in general revenue contributions to Medicare contributed to this change.

The major cause, however, was increases in the Medicaid program, up 20.7 percent in 1990. Medicaid expenditures, jointly funded by Federal and State governments, increased from \$62.3 billion in 1989 to \$75.2 billion in 1990. These increases are at least partially attributable to the additional 1.7 million people on the Medicaid rolls in 1990.

The Federal Government's health spending as a share of Federal revenues reached 17.2 percent in 1990, up from 15.2 percent in 1989. Since 1965, the proportion of Federal revenues spent on health care rose from 3.5 percent, prior to the introduction of Medicare and Medicaid, to 7.3 percent in 1970 and 11.6 percent in 1980 (Table 5).

State and local government health spending as a share of revenues increased from 15.4 percent in 1989 to 16.3 percent in 1990. Medicaid is the second-largest State government budget component after education, so rapid

increases in these expenditures in combination with the recession in 1990 severely strained State resources (Stropko et al., 1991).

Non-patient revenues

Non-patient revenues funded 3 percent of all health care spending in 1990, a share maintained throughout the past decade. Non-patient revenues consist of philanthropic expenditures for health care services and other revenue sources of institutions such as hospitals, home health agencies, and nursing homes that are not directly associated with the delivery of services. The latter includes revenues from sources such as gift shops, cafeterias, and parking lots. In 1990, \$19.6 billion of health expenditures were funded from this source.

Methodology

In this article, we look at HSS by who sponsors the provision of health care services. HSS covers the cost of all personal health care goods and services, government public health activities, administrative costs of public programs, and the net cost of private health insurance. The sponsors of health care may be households, governments, or business. Spending on health care does not always flow directly from the sponsor into the health care system but can pass through intermediaries, such as insurers and governments. These payments in turn are allocated to the different types of health care services. For example, households, business, and governments each pay health insurance premiums: households through direct purchase of policies or through employees' contributions to employer-sponsored health insurance; business and government employers through contributions to employee health insurance plans. These premiums sum to \$216.8 billion, the amount of private health insurance premiums in the NHA. Health insurance premiums are used to pay for the health care benefits or services delineated in the NHA, plus health insurers' administrative expenses and profits and/or retained earnings.

Most of the estimates (such as workers' compensation and non-patient revenues) presented in this article come directly from the NHA and are reassigned to separate sponsor categories. Other estimates also come from the NHA, although they must be disaggregated before reassignment. Two NHA estimates are affected by this disaggregation and reassignment: Medicare and private health insurance. Data sources used in Medicare disaggregation include the *Annual Report of the Board of Trustees of the Federal Hospital Insurance Trust Fund* (1991), *Annual Report of the Board of Trustees of the Federal Supplementary Medical Insurance Trust Fund* (1991), and unpublished detailed data on Medicare hospital insurance tax liability from the Social Security Administration. Private health insurance estimates are split into private and public employer-paid premiums and household-paid premiums using data from the Bureau of Economic Analysis (BEA), U.S. Chamber of Commerce, Health Care Financing Administration, the U.S. Bureau of the Census, and the Office of Personnel Management.

Table 5
Expenditures for health services and supplies as a share of Federal and State and local government revenues: United States, selected calendar years 1965-90

Year	Federal Government health spending as a share of Federal revenues ¹	State and local government health spending as a share of State and local revenues ²
	Percent	
1965	3.5	7.5
1970	7.3	8.3
1975	11.0	10.2
1980	11.6	12.6
1985	14.4	13.5
1986	14.2	13.9
1987	13.7	14.4
1988	14.5	14.7
1989	15.2	15.4
1990	17.2	16.3

¹Excludes contributions to social insurance because these came directly from businesses and individuals. These funds are for dedicated purposes and are not part of the general revenue pool of funds from which health spending can be financed. Based on July 1991 data from the U.S. Department of Commerce national income and product accounts.

²Excludes contributions to social insurance, as explained in footnote 1, and Federal grants in aid, such as Federal Medicaid grants to States. Based on July 1991 data from the U.S. Department of Commerce national income and product accounts.

SOURCE: Health Care Financing Administration, Office of the Actuary; Data from the Office of National Health Statistics.

Any revisions to these methods are listed in the next section.

Revisions

There have been some revisions to the procedures and data sources used in the preparation of these estimates. Changes affect estimates for 1974 and later. The first change is to the private employer-sponsored health insurance estimates. The primary source of historic estimates of employer contributions to private health insurance premiums is the U.S. Department of Commerce, Bureau of Economic Analysis. The BEA estimates are used to quantify the private employer portion of the health insurance premiums for 1965-77. BEA will be revising its estimates of employer-paid premiums as part of its periodic benchmark. These revisions will affect estimates for 1978 and later, and were scheduled to be available in late 1991. In the interim, estimates have been developed that follow BEA's methods but that incorporate minor methodological changes and new or revised data sources. For private employers, premiums are estimated using the U.S. Chamber of Commerce survey of employee benefits (U.S. Chamber Research Center, 1990) and NHA estimates of insurance premiums. Estimates of insurance premiums were recently benchmarked (Office of National Cost Estimates, 1990) and current estimates presented here reflect those revisions.

Second, the data sources and estimation procedures for premiums paid by State and local governments for their employees were also revised. The current estimates integrate data from the 1982 and 1987 Census of Governments (U.S. Bureau of the Census, 1991). With the availability of these surveys, the estimates for State and local expenditures for employee health insurance were revised back to 1978.

A third revision affected estimates for household spending on health insurance premiums. For 1965-90, estimates of household contributions to health insurance premiums were developed using NHA estimates for health insurance premiums. The NHA estimate was reduced by the amount of revised employer-paid private and government premiums, resulting in the estimate of household premium payments for health insurance. New methods and data for estimating employer-paid health insurance premiums for private business and State and local governments caused household premium estimates to be revised for the period 1974 and forward.

Lastly, the estimates for this sponsor taxonomy are based on the NHA. The NHA are revised annually to incorporate newly released data. Because the NHA are the basis for this article, these annual revisions will affect the payer disaggregation. Recent significant changes in the NHA resulted from new data from the personal consumption expenditures (PCE) detail tables, produced every 5 years in conjunction with the GNP benchmark revisions. These tables provide component information on non-durable and durable medical products. The most recent detail table, 1982, became available for the 1990

update raised the 1989 non-durable medical product expenditures estimates by \$6.0 billion and lowered durable medical product estimates by \$2.1 billion. The out-of-pocket and private health insurance estimates for these two components were also revised back to 1978 as a result of the 1982 PCE detail tables. These revisions affected the total of health services and supplies and the allocation between out-of-pocket and health insurance premiums from 1978 forward.

A more complete description of these and other revisions to NHA estimates upon which the payer estimates are based can be found in Levit et al. (1991).

Summary

From 1965 to 1990, the cost of health services and supplies grew from \$38.2 billion to \$643.4 billion. For both business and government, rising health care costs imposed an ever-increasing burden as growth in their ability to finance these costs failed to keep pace. For households, the impact of rising costs on their ability to pay began to increase slightly in the mid-1980s. By 1990, the share of personal income devoted to health care reached 5.0 percent, up from 4.2 percent in 1965 and 4.1 percent in 1980.

While government provided health care coverage for the elderly, poor, disabled, and other special disadvantaged groups, business emerged as the primary source of health care coverage for workers and their dependents. Small businesses, in particular, have felt the burden of health care costs mount. Both insurers and governments are developing plans aimed at easing that burden for small employers. For all sizes of companies, the pending FASB regulations will make business' retiree health care costs more apparent and will undoubtedly alter the type and quantity of retiree benefits offered in the future.

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PRESIDENTIAL REMARKS: AMERICAN BUSINESS CONFERENCE
WILLARD HOTEL
TUESDAY, APRIL 7, 1992
2:00 PM

[Acknowledgments]

It is always a pleasure to speak with members of the American Business Conference, because it is always a pleasure to speak with the best.

I would like to talk to you today about the future -- the future of our country generally, and more particularly the future of our country's business environment. In fact, we cannot separate the two. The America of the 21st century -- its growth, its opportunities -- will be determined by how hospitable we make America for business today.

We can learn from the success your companies exemplify. The key to your success -- the key to the success of any high-growth company -- is the wise deployment of your resources. The successful company channels labor and investment into those areas with the potential for the greatest expansion and the highest return. You are free to take the risk; you are free to reap the reward; everyone, meanwhile, benefits from the wealth you create.

That, in brief, is the genius of entrepreneurial capitalism. Our system has made America the envy of the world, the most prosperous country on earth, affording the highest standard of living to the largest number of people in history. With one-

twentieth of the world's population, we produce one-fourth of the world's goods and services.

When we ask ourselves what has brought us to this preeminence, we find the answer, I believe, in our resiliency, our historic ability to innovate, to change as the world changes. America's world leadership is not automatic; it is not a birthright. We must continue to earn it, day by day, quarter by quarter, year by year. The world now is changing at a pace no one could have dreamed of a generation ago. And America, which has led the world's transformation, must change with it.

But we face obstacles. Over the last several years barnacles have begun to cling to the engine of growth. I have isolated five areas for reform, five critical ways in which America must change. I would like to go through those with you this afternoon. You understand their urgency, for each presents itself to American companies not as an abstraction but in the most immediate way: as a cost of doing business -- a cost you can't control, an expenditure with no possible return.

When our legal system becomes incapable of resolving disputes in a timely and civil manner, business loses the incentive to innovate and take risks. When health care costs skyrocket, business picks up the tab. When government imposes barriers to trade, businesses pay the costs in lost opportunities. When our children leave school without rudimentary skills, business bears the burden in lost productivity. And when government freezes in gridlock, business can no longer plan rationally for the future.

Each of our system's failings saps your resources, drawing away investment and manhours from productive tasks. For America to continue to lead the world, each must be addressed.

Let me start with the crying need to reform our country's civil justice system. Every American has heard the stories of bizarre or frivolous lawsuits; but most of you in this room have lived them, tales that could have been torn from the pages of Kafka. I will cite one example, related by one of your members, Roger Coleman, president of Rykoff-Sexton, a food manufacturer and distributor.

After a record year of earnings in 1989, Mr. Coleman publicly expressed his confidence that 1990 would be even better. When earnings fell short the following year, his hopeful statement became the cause of a shareholder class-action lawsuit. Mr. Coleman, his company and its directors were named as defendants.

First came a meeting with plaintiffs' lawyers, at which the merits of the case were never even discussed. "The issue," says Mr. Coleman, "was the depths of our pockets." Next came the nightmare of discovery: endlessly expensive and invasive. The attention of the company's managers was diverted from running the business to preparing for depositions. The lawsuit, he says, "brought everything to a stop."

In the end, rather than face the bottomless drain on company resources, Mr. Coleman decided to settle. Total tab for this fruitless exercise: \$8.7 million. As Mr. Coleman says: "That's

over \$8.7 million that was diverted from new investments in jobs and facilities."

The scenario is repeated daily throughout American business. It is not repeated, let me stress, among our world competitors. This absurd drain on productivity is a peculiarly American phenomenon, putting us at an increasing disadvantage in the international marketplace.

Only the United States has seen a 382 percent increase in the number of lawyers over a twelve year period. Only the United States spends xx percent of its GDP on litigation -- more than 80 billion annually in direct costs, perhaps four times that in indirect costs. Fear of lawsuits have driven almost half of U.S. manufacturers to withdraw products from world markets. One out of every four American companies has discontinued certain types of product research for the same reason. And at least one entire industry -- light plane manufacturing -- has been all but ruined.

The price of lawsuit madness is too high. It is a deadweight on our ability to produce and compete worldwide. It must end. We've been proud to work with ABC in restoring sanity to our civil justice system. My competitiveness council, led by Vice President Quayle, has offered 50 recommendations for legal reform. They would limit discovery to rational proportions, discourage some frivolous suits through a "loser-pays" rule, and offer alternative means of resolving disputes.

Some of these 50 comprehensive recommendations I have instituted by Executive Order; others are contained in our Access to Justice Act, submitted to Congress earlier this year; and

still others will take place at the state level, using the model reforms we have proposed.

If we are successful, the effects will be far-reaching, extending into another area critically in need of reform. Medical malpractice premiums almost doubled in the second half of the 1980s, owing largely to the explosion in lawsuits. Doctors have begun practicing "defensive" medicine, ordering unnecessary tests and procedures to protect against litigation.

This too drives up health care costs. The trends are simply unsustainable. From less than 6 percent 30 years ago, total health care expenditures are today about 13 percent of GDP. Incredibly, some mid-range estimates put that figure at 30 percent by the year 2030 -- that's thirty cents of every dollar of national output spent on health care.

It is not hard to imagine what this would mean for American business. Profits are already swamped in health care costs. American companies, on average, spend more on health premiums each year than they earn in after tax profits. And this trend too is heading inexorably upward.

This is a crisis -- for American business, for every American. Reform of the system is inescapable. But we face a crossroads. Some have advocated nationalized care; others propose the so-called "pay or play" approach, which I am convinced is merely a step on the road to nationalized care.

Neither is acceptable. Neither will preserve the quality of our country's health care, which for all its faults is still the best in the world. I will not let that high quality be taken

away from the American people through some scheme of government control. Nationalized care means rationed care; its promise of cost containment is a mirage. Pay or play would increase still further the mandates on business. The proposed 9 percent payroll tax, for example, would mean a 34 percent increase to a company's insurance costs. That money must come from somewhere -- and for a company unable to pass along the added costs through higher prices, it will come out of profits.

There is an alternative. My proposed reform of our nation's health care system is based on sound principles. We will build on our strengths, preserving the quality of care by avoiding the chimera of government cost controls. We will preserve consumer choice. Through tax credits, we will assure access to basic health insurance for the uninsured, and control costs through market incentives. And we will not raise taxes on American employers.

I have targeted a third area for change, one no less critical to our success in the coming decades. Recently we have seen a resurgence of the protectionist threat. You well know the dangers of this siren call, because you understand as well the opportunities the global marketplace offers the American worker. ABC's members tell the story. The fastest growing companies among you -- the ones creating the greatest number of jobs here at home -- are those with far-reaching involvement in foreign markets. You understand that for America to succeed economically at home, we must succeed economically abroad.

I am committed to opening markets to American products, removing the government-imposed barriers that act as a hidden tax on American business. Each market by protection is a lost opportunity to sell your products. A successful conclusion to the current Uruguay round of trade negotiations, for instance, is expected to increase world economic output by \$5 trillion over the next decade. More than \$1 trillion of that boom will go to the United States.

Even closer to home, exports to Mexico have more than doubled over the five years -- creating more than 260,000 American jobs. Our North American Free Trade Agreement will lock in those gains. Together with Mexico and Canada, we will create a \$6 trillion market of 360 million producers, the largest marketplace in the world.

ABC proves that American businesses have nothing to lose and everything to gain by increased international competition. As world trade expands, the need for a sophisticated, well-educated workforce will intensify. Yet the fact is grim and undeniable: our educational system, as currently structured, is simply unable to produce the workers the highly competitive world market demands. And make no mistake: a failure to produce a world-class workforce will only provide an incentive to move new jobs overseas.

Our educational failures have hit American employers hard. English is now the language of international business, but xx young people graduate high school lacking minimal grammar and writing skills. The same holds for studies in geography, math

and science. Too many businesses are forced to pay twice for the education of prospective employees -- once through taxes that support our schools, and again through job training to remedy the failures of those schools in educating our young. Today American businesses are spending xx on remedial training.

I greatly appreciate the steps businesses have taken on their own to correct this national scandal. ABC's Vital Link, which works with local schools to establish learning incentives for students, is a perfect example. But there is much for government to do. In early April, I will submit to Congress a new strategy, called Job Training 200, to reform vocational training for young Americans.

This year, seven different federal agencies will spend \$18 billion on a patchwork of 60 vocational training programs. Is it any wonder that so many of our young people who desire training don't know where to get it? Working with state and local governments, Job Training 2000 will bring coherence to those programs. Private industry councils, largely composed of businessmen, are crucial to the strategy. They would manage programs tailored to the specific needs of local labor markets. And they will be accountable for the quality and efficiency of their programs.

In stressing accountability and local control, Job Training 2000 perfectly complements a revolution that is now taking place in American education as a whole -- a revolution absolutely essential if we are to create a world-class workforce for the future. Our America 2000 initiative aims to reinvent American

schools. How we get there is no secret. We set high standards for students. We make teacher training a top priority. And we make schools more accountable, by exposing them to competition. That means giving parents the opportunity to choose their children's schools.

I am convinced that each of these steps -- expanding world trade, reinventing education, restoring sanity to our legal system, and ensuring quality health care for all -- is essential to this country's future productivity. Each, I believe, is essential if American business is to create wealth and jobs, because each will remove from you burdens that serve only to divert your valuable resources.

At the same time, each faces powerful opposition from special interests who profit from the status quo. So I have targeted a final reform, no less important than the others. If America is to change, American government must change. Last week in Philadelphia, I spoke at some length on the paralysis that grips the federal government. This paralysis prevents Washington from making even the most rudimentary decisions of public policy. The results are plain: a deficit that is a fiscal and a moral outrage, a permanent governing class oblivious to the national interest, hundreds of wasteful programs that live in perpetuity.

The steps I outlined will restore accountability and responsiveness to a system that has been broken for too long.

A responsive government will give the steps I've outlined here today a fair hearing, even though the special interests are arrayed against them. These approaches are grounded in basic

principles, a way of looking at the world. Government must trust the wisdom of markets more than the whims of bureaucrats. The freely made decisions of businessmen and women must take precedence over the engineering schemes of government. All of our institutions -- from the U.S. Congress to the local school board -- must be accountable to those they serve.

With these principles as our guide, we will meet the challenges -- and exploit the opportunities -- of the world that is even now being born.

**Commitment
to Growth:
The American Business
Conference and the Challenge
of Economic Policy**

**Commitment
to Growth:
The American Business
Conference and the Challenge
of Economic Policy**



AmericanBusinessConference



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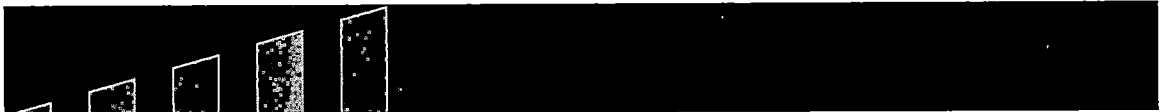
Preface

This report contains highlights from a recent survey of the members of the American Business Conference (ABC) and an interpretive essay about ABC and its place in the Washington business community. There are as well throughout the text comments from individual ABC members that help to illustrate how ABC's mission relates to the business experience of ABC executives. We would like to thank all ABC members for their cooperation in the preparation of this report. We remain struck by their enthusiasm, by the continuing relevance of their views for progressive economic policymaking, and by the accuracy of their vision both in founding ABC ten years ago and keeping it on course for the future.

*James R. Jones, Chairman
Barry K. Rogstad, President*

The American Business Conference

Washington, D.C., April 1991



Foreword

This report is being issued in conjunction with the tenth anniversary of the founding of the American Business Conference (ABC).

For those who know ABC well, an anniversary celebration may seem incongruous. ABC members — the chief executives of some of this country's most successful entrepreneurial firms — are not the sort of people who look back. As a study of our members by McKinsey & Company observed, ABC executives have an "eternal dissatisfaction with the status quo." They thrive on change.

Still, one can learn from the past without living in it. The policy agenda of ABC for the next decade has been formed and tempered by political and business developments over the last ten years. By providing a backward glance over those developments, this report maps ABC's future.

Regardless of the specific policy challenges ahead, ABC's mission and methods will not change. We shall continue to promote initiatives to encourage economic growth and a higher standard of living for all Americans. Our members, rather than ABC staff, will be responsible for communicating our views to policymakers. We shall ask to be evaluated on the merit of our ideas; ABC will never have a political action committee. And we shall remain bipartisan.

Pausing to mark an anniversary is a pleasant and appropriate activity. It must also serve to remind us of how much work lies ahead. The nation's fiscal house is in disorder, the skills of our workforce require improvement, and American business has yet to come fully to terms with economic globalization. These problems, burdening as they do capital formation, labor productivity, and international trade and investment, directly threaten the economic well-being of future generations.

The nation needs a new consensus on the importance of economic growth as the only practicable means for building — and paying for — the kind of society we want to bequeath to our children. Taking the lead in building that consensus is precisely what ABC hopes to do over the next decade. We expect to be kept busy.

*Arthur Levitt, Jr., Founder and Past Chairman
The American Business Conference*



Discussion of ABC Anniversary Survey

In preparation for the American Business Conference's tenth anniversary celebration, ABC executives responded to a survey designed to elicit their views on the competitive environment, the American workforce, and international economic conditions.

The survey was distributed to ABC executives in late 1990, a time of discouraging political and economic news. Large numbers of American soldiers were preparing for battle in the Persian Gulf. The American economy had fallen into recession, stretching the already strained resources of the banking system. The Uruguay Round of the General Agreement on Tariffs and Trade was on the verge of collapse.

Despite these and other grave problems, the seventy ABC executives responding to the survey were characteristically optimistic. To be sure, they face their share of competitive pressures, as the survey revealed. Nonetheless, ABC members were able not only to look back on a decade of accomplishment but forward toward further success. The survey, then, is in effect a single snapshot of a dynamic and continuing process of growth and job creation.

**Comments regarding
key factors for success
in the 1990's.**

"Cost containment with quality and service"
Peter McCausland, Chairman & CEO
Airgas, Inc.

"People — education and training"
Roland S. Boreham, Jr., Chairman & CEO
Baldor Electric Company

"Adequate financing, motivated associates, clear strategic direction"
Clark A. Johnson, Chairman & CEO
Pier 1 Imports, Inc.

"Innovation and price"
John W. Brown, Chairman, President, & CEO
Stryker Corporation

"Worldwide skill at exploring new market niches via clever marketing and technology"
John A. Gilmartin, Chairman, President, & CEO
Millipore Corporation

"The successful adoption of Total Quality Management practices throughout our company"
Stephen R. Levy, Chairman & CEO
Bolt Beranek and Newman, Inc.

The Competitive Environment

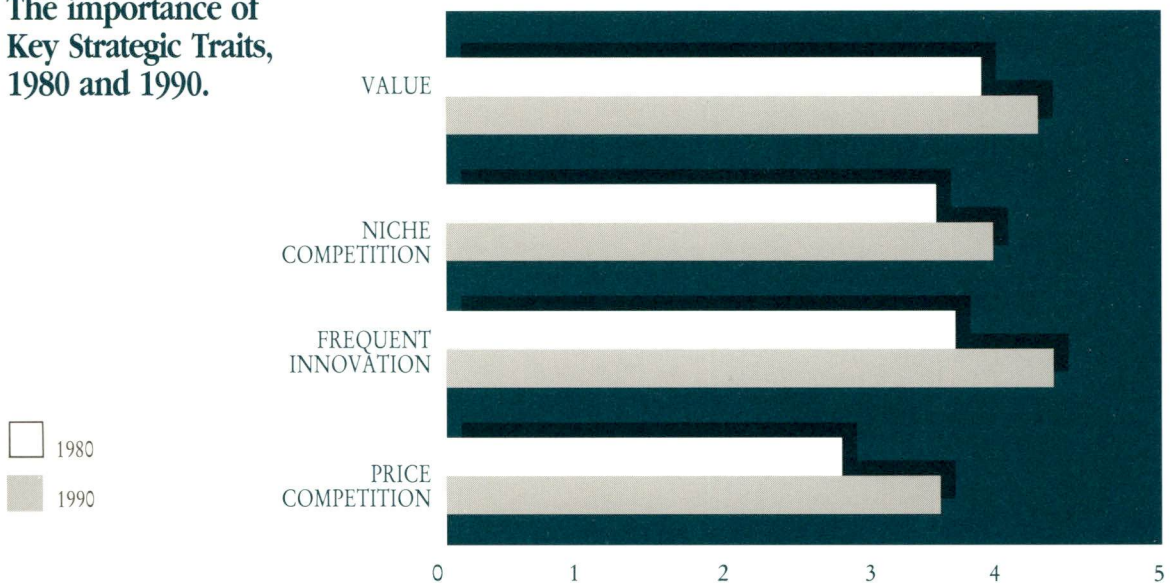
As a group, ABC companies face a tougher competitive environment than they did ten years ago. A look at the importance they place on key strategic traits demonstrates the point.

Ten years ago, ABC executives emphasized innovation, niche competition, and value as key components to their success. Price competition lagged in importance.

Today, innovation, niche competition, and value have become even more critical. Price competition, while less crucial, has also grown in significance.

ABC executives are today faced with the job of speeding the pace of innovation, expanding their share of key niche markets, and providing more value in their goods and services — all of which demand increased investment — while simultaneously cutting costs to meet stronger price competition.

The importance of Key Strategic Traits, 1980 and 1990.



Job Creation

Despite tightening competitive pressures over the past decade, ABC companies achieved a remarkable rate of job creation during the 1980's. According to the survey, for the years 1980-1990, ABC companies created domestic jobs at a compound annual rate of 8.2 percent, thereby more than doubling their number of U.S.-based employees in ten years.

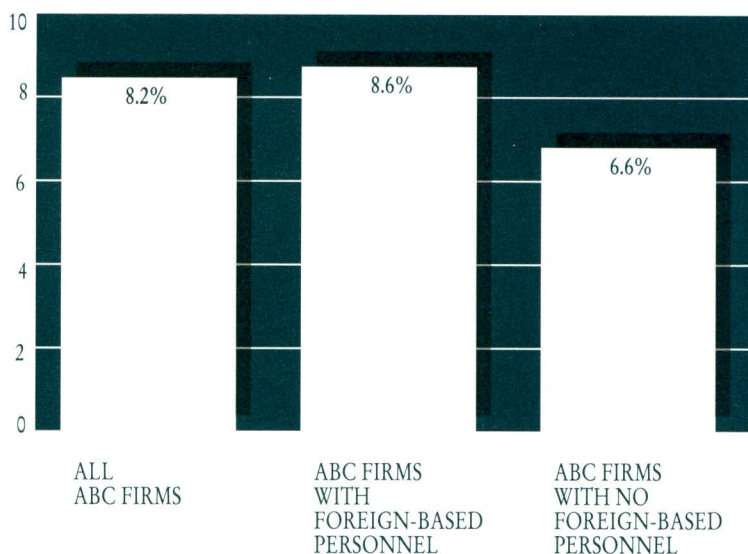
Domestic job creation by the subset of ABC companies investing and hiring abroad surpassed that of ABC companies with no foreign-based employees. Because of the so-called runaway jobs syndrome, this point deserves amplification.

Sixty-seven ABC executives provided employment data in their survey responses. Seventeen reported that their firms had no foreign-

based employees. Between 1980 and 1990, the domestic workforce of these companies increased at an average compound annual growth rate of 6.6 percent. In contrast, the fifty responding ABC companies with foreign-based employees, expanded their domestic employment in the 1980's at an average annual rate of 8.6 percent. Building on a much smaller base, these same companies more than tripled the number of employees outside of the United States.

These numbers suggest that, at the very least, investment and employment abroad do not necessarily reduce domestic employment. In fact the data indicate that for growing companies, establishing corporate presence in foreign markets may protect and expand job opportunities in the United States.

Average Compounded Annual Growth Rate of Domestic Employment, 1980-1990.

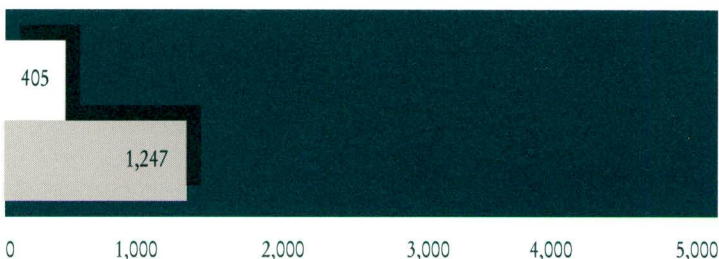


Average Domestic Employment of ABC Firms, 1980 vs. 1990.



Average Non-U.S. Employment of ABC Firms, 1980 vs. 1990.

1980
1990



Workforce Competence

Thirty-four percent of ABC executives surveyed believe that the competence of the American workforce has improved over the past ten years, 41 percent believe workforce competence has declined, and 25 percent found no substantial change.

The survey asked those ABC executives reporting declining competence to describe what their companies are doing to compensate.

"Because the nation's security, economy, and quality of life depend on the technological literacy of all Americans, it is critical that business invest in and help improve our education system."

**John Rollwagen
Chairman & CEO
Cray Research, Inc.**

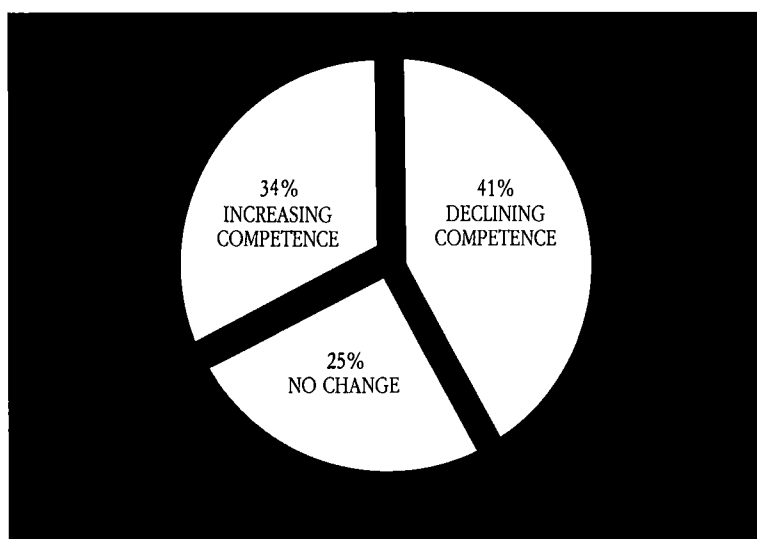
Seventy-one percent of those executives who believe workforce competence is declining reported that their companies were becoming less dependent upon workers in favor of greater mechanization; that is, their companies were substituting capital for labor where possible.

Sixty-eight percent said their firms were redoubling their efforts to retrain workers to specific company standards. Other options cited included instituting remedial education to teach basic skills (32%), looking beyond traditional sources to satisfy labor needs (32%), outsourcing to other firms (18%), and simplifying work procedures to help less able employees (12%).

Clearly there is no single strategy for dealing with the problem of declining workforce competence. ABC executives typically cited multiple tactics.

Most of the tactics are short-term responses to a long-term problem. Ultimately, development of a world-class workforce will depend on a world-class educational system at all levels, in all communities, and for all students. Otherwise, the pressure to export jobs will grow — not to cut costs but to find competent people.

**ABC members' views
regarding changes in the
competence of the U.S.
workforce, 1980-1990.**



International Outlook

In a characteristic departure from conventional wisdom, and in the face of the collapse of the Uruguay Round and the rise of protectionist pressures, the vast majority of ABC executives surveyed believe that the next decade will be a period of generally liberalized trade and investment.

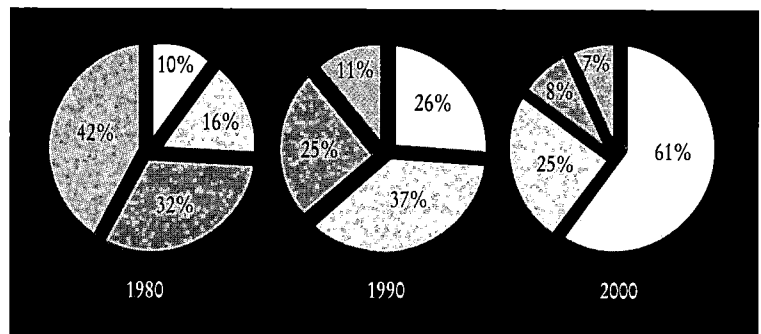
From the standpoint of managerial strategy, ABC executives are looking beyond national borders for increased growth. Sixty-one percent of the ABC executives surveyed said that by the year 2000, international business will be indispensable for their firms' overall success.

International business is already a key factor for the growth of ABC companies. In 1990, on average 24 percent of the total revenues of ABC firms were derived internationally.

For the years 1990-1995, ABC executives project an average compound growth in international sales of nearly 20 percent. Although exporting will remain an important tool for garnering those sales, ABC companies also plan to expand their production capacity abroad.

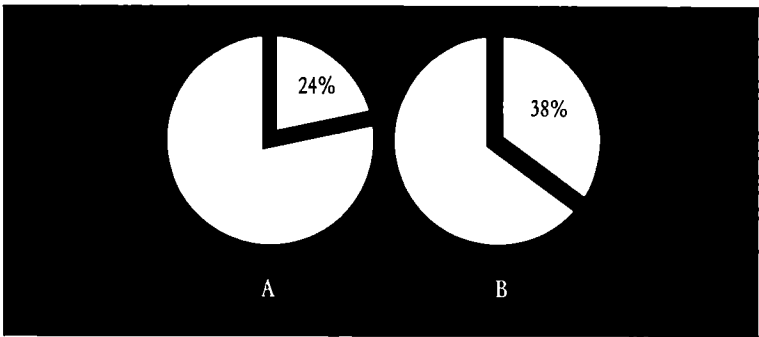
International investment moves in more than one direction. Forty-five percent of the ABC companies surveyed reported that they had tapped international capital markets. When asked why they had looked abroad for financing, ABC executives most often cited the superior availability and price of foreign capital, the longer-term perspective of foreign investors, and the need to minimize risk through foreign exchange hedging. Looking ahead, most ABC executives expect the international capital markets to play an increasing role in helping their companies meet their future financing needs.

ABC members assess the importance of international business for the success of their firms, 1980, 1990, 2000.

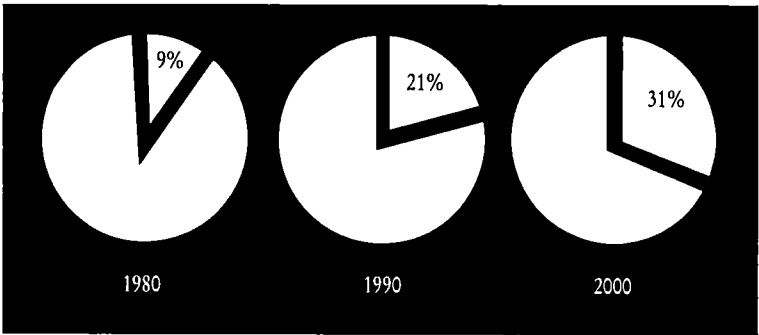


A. International revenues of ABC firms as a percentage of total sales, 1990.

B. Exports as a percentage of all international sales, 1990.

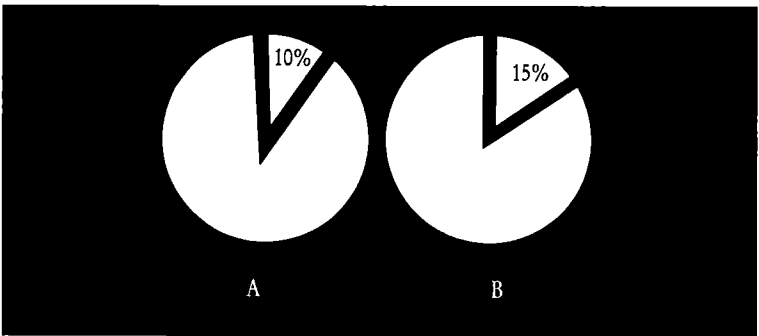


Foreign production capacity of ABC firms as a percentage of total production, 1980, 1990, 2000.

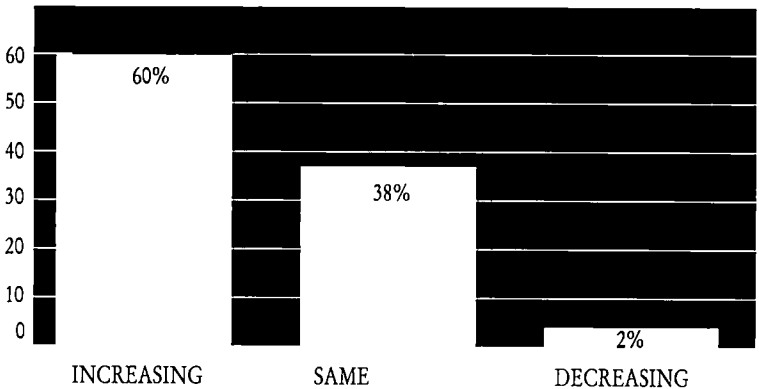


A. Foreign-owned equity as a percentage of total equity of ABC firms, 1990.

B. Foreign-owned debt as a percentage of total debt of ABC firms, 1990.

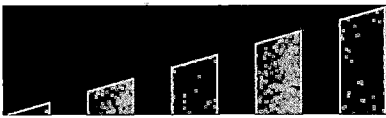


ABC members assess importance of international capital markets for their future financial needs.



To look at these survey results is to understand immediately ABC's policy agenda. Today more than ever, low cost and plentiful investment capital, an able and motivated workforce, and an international economic system open to the free flow of goods, services, and investment are essential if companies like those in the ABC are to flourish and the economy as a whole is to grow.

Growth is not automatic. Job creation does not just happen. International competitiveness is not a right. All require cultivation. While the future of ABC firms appears bright, that future will only be realized in the appropriate policy environment. Articulating the necessary ingredients for such an environment is what ABC members attempt to do.



ABC and the Washington Business Community: 1981-1991

The decade of the 1980's was the most active period of federal economic policy formation toward business since the New Deal. Private sector efforts to influence that policymaking were correspondingly intense.

One measure of those efforts was the growth of the business community in Washington. According to the authoritative directory, *Washington Representatives*, by the end of the decade there were permanently installed in the Washington area over 1,900 trade and professional associations, 1,500 corporate representatives, and nearly 3,200 lawyers and consultants registered as lobbyists or foreign agents.

These numbers underestimate the private sector presence in Washington. Business-subsidized think tanks, coalitions, and other nominally independent organizations have extended business's reach. Overnight mail, facsimile machines, telephone banks, and computerized mailing lists have enabled companies without permanent representation in Washington to become, in 1980's parlance, players inside the Beltway.

From its inception in 1981, the American Business Conference has faced the challenge of being heard amid the explosion of private sector participation in governance. To do so, ABC has relied upon the power of one idea: economic growth.

In the late 1970's — when ABC was taking shape — the promise of economic growth had dimmed. High energy prices, inflation, rising unemployment, and declines in product quality and service all conspired to produce what was accurately described as a national malaise. For many large American companies preservation of existing capacity had replaced growth as the prime imperative. The American economy and American business seemed exhausted.

ABC offered another view. Here was a group of entrepreneurs whose companies were doubling in size every five years. Between 1975 and 1980, ABC companies had created new jobs at a rate three times faster than the economy as a whole, enjoyed annualized export growth rates of 29 percent, and expanded capital spending at a rate nearly twice that of *Fortune* 500 companies.

This extraordinary performance during the malaise years was bound to attract attention. Even the relative obscurity of ABC executives and their companies contributed to the organization's reputation. The press and policymakers regarded ABC members as novelties: they were not the usual corporate "statesmen" surrounded by public relations advisers. Here were people quite unused to the ways of Washington, evidently more comfortable at home running their companies, and yet nonetheless convinced it was worth their time to try to orient public policy to encourage economic growth and job creation. Even more surprising, they wanted to concentrate

exclusively upon improving aggregate economic conditions rather than plug the self-interest of their individual companies.

This perception of ABC members and their motives, which helped so much to establish the organization's credibility, had the added advantage of being true. Moreover, it was coincident with a burgeoning belief in the possibility of economic renewal that was beginning to sweep the nation in the early 1980's.

Emergence of an Agenda

Capital Formation

ABC's impact was more than just a matter of anticipating and embodying a change in the national mood. Substantively, there was — and is — a difference in public policy perspective between companies that are growing and those that are preserving capacity; companies that aspire to be king of the hill and those desperately trying to stay on top.

An early example of that difference involved tax policy. A McKinsey & Company study sponsored by ABC in the early 1980's measured the effective tax rate paid by 1,200 midsize, high-growth companies compared to that paid by the *Fortune* 100 group of firms. Using 1978 data (the most recent then available), McKinsey discovered that the growth companies were paying twice the rate of the larger companies (30% compared to 15%).

The difference was best understood as the result of a corporate tax structure that rewarded capital intensive, smokestack industries with generous write-offs while taxing at high marginal rates the income of companies relying on intellectual and technical knowledge. Yet, the latter group of companies — including the members of ABC — were creating jobs and internationally competitive products.

For ABC members a solution to this paradox seemed clear: lower corporate tax rates in exchange for the elimination of generous write-offs for capital intensive companies. Lobbyists for firms profiting from the code's prevailing bias were not impressed. The resulting fissure in the business community persists to this day. Without the advocacy of growth companies, the debate might never have occurred at all.

Concern about effective tax rates led naturally to interest in a larger issue: the cost and availability of capital for business investment. In a 1983 monograph entitled *High Cost of Capital: Handicap of American Industry*, a founding member of ABC, Dr. George N. Hatsopoulos, demonstrated that American business faced a real cost of capital three times higher than that in Japan. Dr. Hatsopoulos argued that this disparity in capital costs, if unattended, would cripple the ability of American companies to compete in the world market.

The problem of high capital costs was obvious to ABC executives and business economists. But for Washington, the cost of capital was an idea neither familiar nor well understood. Before the Hatsopoulos monograph, differential labor costs were regarded as the primary

"Why should the average American who's not an investor be concerned about capital formation? Very simply, it's in four letters: J-O-B-S. There is no way you are going to have job growth unless you have renewed vigorous investment of capital, both in physical plant and in human beings."

James R. Jones
Chairman,
American Business
Conference
Chairman,
American Stock
Exchange

advantage enjoyed by non-American companies. That assumption was a product of the hold that big business had on the Washington policy debate.

For large firms, as ever, the issue was preservation of capacity. Capital costs were not important because older, larger companies were not capital hungry.

But growth companies have a voracious appetite for capital; they must be in the capital markets continually. The predicament of emerging growth companies is particularly dire. Not established in the marketplace and with little collateral, such firms must rely on the equity markets where capital costs are especially high.

Once again, the perspective of growth companies had introduced something new to the Washington debate. In the years since ABC's release of the Hatsopoulos monograph, America's high cost of

**Excerpt from ABC
Economic Policy
Resolution
(Adopted January 24, 1989)**

Be it resolved that the ABC considers the stimulation of national savings and the continued reduction of the federal deficit as the nation's leading economic priorities.

Be it resolved that the ABC believes deficit reduction is primarily a matter of reducing the rate of increase in federal spending. To that end, the ABC urges bipartisan scrutiny of all federal spending programs, including defense and domestic entitlements, for possible savings.

Be it resolved that the ABC believes that savings can be realized without compromising national security, the needs of low-income Americans, and necessary investments in infrastructure and education.

Be it resolved that the ABC advocates consideration of issues of inter-generational equity in order to balance expenditures to meet obligations to older Americans in need while providing programs to develop the potential of the young and working population.

Be it resolved that the ABC advocates reform of the budget process for the purpose of introducing greater discipline and accountability. A disciplined and accountable budget process is one that communicates to taxpayers the costs as well as the benefits of any new programs while insuring that such programs, if adopted, are adequately financed.

Be it resolved that the ABC believes that, to the maximum feasible extent, the burden of new federal spending should be borne by citizens according to their ability to pay, and that citizens with similar income levels should have similar tax obligations regardless of the source of their income.

Be it resolved that the ABC, in the event that spending economies and budgetary discipline are not sufficient to reduce the deficit, supports imposition of new taxes explicitly and without exception for the purpose of deficit reduction. The burden of new levies should fall on consumption rather than savings.

Be it resolved that the ABC supports longer term tax reform which removes the bias against savings and investment relative to consumption.

capital has taken its proper place in discussions about improving the international competitiveness of American business.

Having demonstrated that the declining availability of capital in general and its high cost to business in particular impeded economic growth, ABC executives characteristically set about the task of trying to solve both problems. The solution required two related public policy strategies, neither of modest proportions: reduction of the federal deficit and correction of biases in the tax code.

As ABC members saw it, the huge and chronic deficits of the 1980's would have been tolerable had the nation's private saving rate been robust. But the federal dissavings in the form of deficits had been coincident with a plunge in the private saving rate.

The amount of capital available for investment declined. By the late 1980's, the United States lagged major industrial nations in both net investment and productivity growth. Much of the investment that was taking place was being financed by a huge influx of foreign capital, indebtedness that caused the nation's trade deficits to swell and imperiled the standard of living of future generations of Americans.

For ABC, then, the importance of deficit reduction could only be understood in the larger context of the nation's low level of national savings. This perspective differed from the traditional hostility of business to "big government." ABC executives did not venture any particular view about the optimum size of government; they were primarily concerned that Americans pay for whatever amount of government they wished to have.

While seeing deficit reduction as primarily a matter of moderating the rate of increase of federal spending and establishing greater overall budgetary discipline, ABC also supported new taxes dedicated to deficit reduction.

To raise revenues without penalizing savings, ABC called for larger levies on consumption. In the short-term, that meant excise tax increases such as a higher levy on gasoline. Longer term, ABC in the early 1980's supported a national value added tax (VAT) designed with appropriate exemptions for food, clothing, and shelter. In recent years, support for a VAT has been complemented by member interest in a consumption-based income tax. Administered like the current income tax, a consumption-based income tax exempts from taxation all forms of net savings.

Along with urging deficit reduction as a means of raising the level of national savings, ABC also sought policy initiatives to correct a prevailing bias in the tax code favoring debt over equity and consumption over savings.

The tax code allows corporations to deduct interest on debt while simultaneously taxing equity twice, once as corporate income, later as dividends and the appreciation of corporate shares resulting from retained earnings. As George Hatsopoulos demonstrated in a 1989 monograph co-authored by Professors James Poterba and Paul Krugman of the Massachusetts Institute of Technology, this anomaly has several adverse effects. First, it raises the cost of capital particularly for knowledge-intensive firms and start-up companies that must

rely principally on equity financing.

Second, it provides an incentive for companies to exchange equity for debt, thus making themselves vulnerable in economic downturns. Finally, the code's bias in favor of leverage propelled a number of debt-financed takeovers and buy-outs. These deals resulted in huge, involuntary capital gains realizations for tendering stockholders. Hatsopoulos and his colleagues estimated that every dollar paid out in these transactions resulted in 59 cents of additional consumption. The rash of financial restructuring in the 1980's with leverage, in other words, had been an important contributor to the nation's consumption binge.

The code's bias favoring consumption over savings causes equally perverse results. The flow of money into consumption is taxed only once as income. Savings are taxed twice: first as income and then as returns on accumulated savings. ABC executives believed that this disincentive was at the core of America's chronically lagging savings rate.

ABC members devoted considerable time to forging proposals to achieve greater tax neutrality regarding debt versus equity and consumption versus savings. Of course, a simple way toward neutral treatment of debt and equity would be to repeal the deduction on corporate debt. Some in Congress proposed as much.

ABC members demurred. Repealing the interest deduction would raise the overall cost of capital. ABC members chose instead to join those calling for corporate tax integration — that is, removing a layer of taxation on equity.

As an alternative to integration, ABC endorsed enactment of a capital gains differential applicable exclusively to new equities or new gains on existing equities. The degree of tax preference accorded such gains would depend on the length of time the equity had been owned. For longer-term holdings, the tax on capital gains would decline to zero.

To correct the code's bias against savings, ABC endorsed tax-based savings initiatives such as expanded Individual Retirement Accounts, family savings plans, and an expansion of the current savings bond program. Recognizing the degree to which American cultural attitudes promote consumption over savings, ABC members strongly urged the President and other political leaders as well as their colleagues in the corporate community to underscore the importance of saving for the nation.

ABC's ideas for tax neutrality were not without cost. Compensating for the double taxation of equity and of savings would necessarily reduce federal revenues. ABC's desire to correct the bias in the tax code thus collided with its advocacy of deficit reduction.

Confronting this conflict has led to a sense among ABC members that over the long term, the United States must adopt sweeping tax reform that raises an adequate amount of revenues, does not discriminate against savings and investment, and is fair. The consumption-based income tax theoretically meets all three criteria. For that reason it has the potential for providing the structural framework for ABC's capital formation advocacy in the next decade.

Like the current income tax that it would replace, the consumption-based income tax can be made as steeply progressive as voters wish and economic circumstances require. Because all forms of savings escape taxation until they are drawn down and spent, a consumption-based income tax obviates any need for targeted savings incentives. Similarly, corporate income would remain untaxed unless distributed and used for consumption. The double taxation of equity would disappear.

Obviously, a consumption-based income tax presents daunting transition problems (although unlike a VAT it does not necessitate a new bureaucracy). ABC members believe that the tax's merits warrant discussion and resolution of these transition problems. The alternative is continued tinkering with the current tax code — a process guaranteeing uncertainty, unintended consequences, skewed business decisions, voter cynicism, and fat retainers for lobbyists, lawyers, and accountants.

It is within the capacity of the United States to develop a system of taxation that is equitable, efficient, and neutral. Such a system will not eliminate all concerns about America's economic competitiveness. Absent such a system, however, discussions about what government can "do" for business are futile.

International Trade and Investment

Like ABC's fiscal policy, the organization's perspective on international trade and investment ran counter to the prevailing views of the business community in Washington.

Chronic merchandise trade imbalances in the first half of the 1980's prompted Congress to involve itself far more than at any time since World War II in the formation and management of trade policy. Congressional participation spurred greater business lobbying on trade and investment issues.

The greatest share of business advocacy on trade emanated from companies seeking protection for their share of the domestic market. For firms more intent upon preservation rather than expansion, this was a rational course. It is also true that protective measures are easier to devise and their effectiveness simpler to measure than initiatives to encourage businesses to sell abroad.

ABC executives were not among those pursuing protection. The early 1980's had been a period of rapid international expansion for member firms. Between 1981 and 1986, the foreign sales of ABC firms had grown at an average rate of 20 percent a year, compared with 3 to 4 percent for other American companies reporting international revenues. The foreign operating income of ABC companies had increased 23 percent annually, in contrast to 4 percent for other companies. ABC companies similarly outpaced their corporate colleagues in export growth and in the acquisition of foreign assets.

As in tax policy so in trade policy the line between growth companies and firms seeking to preserve capacity was stark. ABC companies made their views known in two publications, *The Challenge of Global Competitiveness: Views of America's High Growth Companies* (1987) and *Winning in the World Market* (1987). These

"Doing business internationally is not an option for most American companies. It is a necessity. Unless we aggressively establish market presence abroad and unless we are willing to learn from our foreign-based competitors, our capacity to control our market here at home will be irremediably crippled."

**J.P. Barger
President & CEO
Dynatech Corporation**

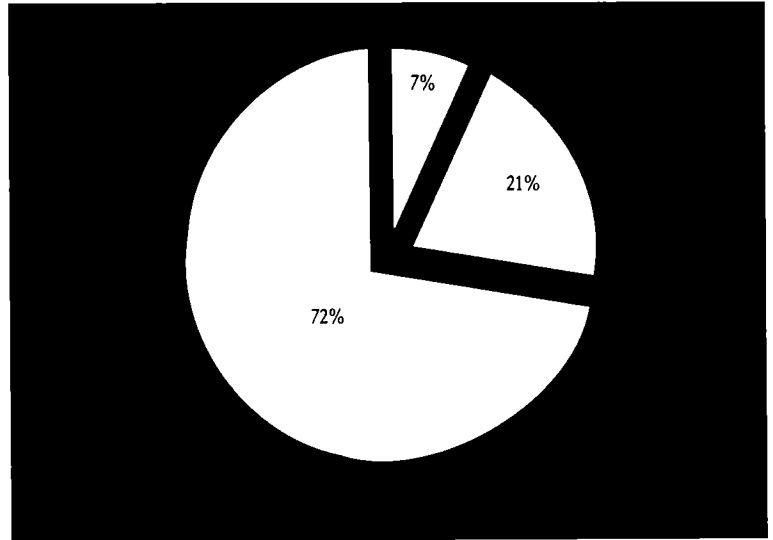
two monographs, based on surveys of ABC executives and follow-up interviews, described the international success of ABC firms and the managerial principles behind that success.

Other than calling for a reconsideration of export control

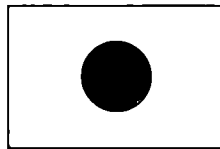
International Environment: Views of ABC Members

ABC members assess the overall trade and investment environment over the next decade.

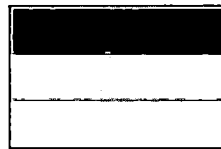
- 72% *Improving/more liberalized trade investment environment*
- 21% *Worsening environment/greater protectionism*
- 7% *No change*



The three highest growth markets for ABC firms over the next five years.



JAPAN/
PACIFIC RIM



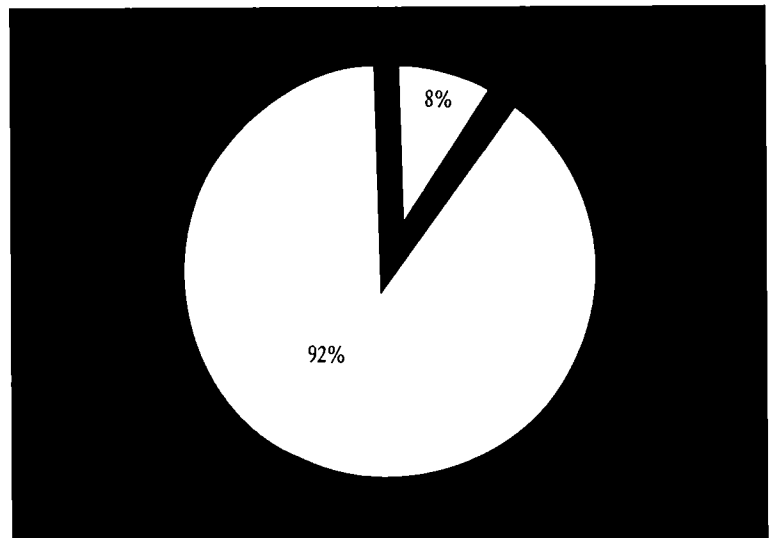
GERMANY/EEC



CANADA

ABC members overwhelmingly support U.S.-Mexico Free Trade Agreement.

- 92% *Support*
- 0% *Oppose*
- 8% *No opinion*



"Our continued success depends upon our ability to compete effectively with international competition in both the domestic and overseas market. We must continue to offer consumers the finest products at the best value in whatever market place we compete. To be successful we must have a competitive cost of capital, able employees, and an open, rules-based trading system."

**W.L. Lyons Brown, Jr.
Chairman & CEO
Brown-Forman
Corporation**

regulations, neither publication made specific policy proposals. Indeed, ABC executives evinced little enthusiasm for new trade legislation and no enthusiasm at all for protectionism.

ABC members did not deny that barriers to trade and investment existed in Japan and elsewhere. They denied instead the capacity of government to remove those barriers through unilateral action. Moreover, ABC dared to suggest that some barriers were not so much walls as hurdles and that managerial commitment and skill could surmount them.

These views were provocative. In advancing them, ABC members were at some pains to point out that they did not regard their international success as automatic or necessarily permanent. They were, in the words of Ray Stata, CEO of Analog Devices, "running scared." They did not want anyone concluding, on the basis of their performance, that government had no role to play in cultivating competitiveness.

For government did have a role. Rather than squander political resources trying to force the Japanese to behave, policymakers could better spend their time helping to create a healthy economic environment at home. Reduction of the federal budget deficit and construction of a neutral tax code to facilitate the amassing of low cost, patient investment capital were high on the list of necessary tasks. Fiscal policy was linked indissolubly to international competitiveness.

That linkage was, during the heat of the battle over omnibus trade legislation in the mid-1980's, an inconvenient truth. ABC's agnosticism on the matter of devising tough new trade laws placed the organization in the not unfamiliar position of bucking current wisdom.

Equally controversial was the nature of ABC firms' international success. As described in *Winning in the World Market*, ABC companies typically had combined exporting with an investment-based strategy. The latter entailed establishing sales, production, and research and development facilities in key international markets such as Japan and the European Community. These facilities were staffed almost exclusively by foreign nationals.

That ABC members viewed exporting as only one tool among many for succeeding in international markets disappointed many tribunes of competitiveness. For them, it was not enough to succeed internationally; a firm must export.

Central to this view was the assumption that investment abroad eliminated jobs at home. For companies struggling to preserve capacity, such a zero sum game might be the rule. Going offshore is a quick way of reducing costs.

Growth companies are different. Their market share at home is expanding. They do not invest in international markets to pare domestic labor costs. They develop a presence abroad to grow abroad, by keeping close to their customers, capturing product and technological innovations developed outside of the United States, and tying down foreign competitors on the latter's turf rather than in the American market.

The ABC experience suggests that, rather than reducing domestic employment, an international presence helps to create new jobs at home. In making this point, ABC members hope to elevate the debate on competitiveness beyond a one-dimensional fixation on the merchandise trade deficit, a measure that disguises as much as it reveals about American business's relationship to the rest of the world.

To that end, ABC members strongly supported efforts to facilitate the movement of goods, services, and investment through bilateral pacts, such as the U.S. - Canada Free Trade Agreement and multilateral negotiations such as the Uruguay Round of the GATT. Additionally, ABC members are today actively involved in establishing linkages with entrepreneurial firms in Japan and the European Community. Ultimately, ABC hopes to establish an international business-to-business dialogue on the importance of open markets for world prosperity and economic efficiency. Forestalling a new era of protectionism is absolutely critical for the ability of ABC companies as well as other American firms to thrive in the next decade.

Education

While international expansion does not necessarily reduce domestic employment, it does require an able and productive domestic workforce. Along with augmenting the quality and amount of investment capital, ABC members are similarly concerned with improving the skills of employees.

This concern predated current business anxiety regarding education. The rapidity of ABC companies' job creation brought them close to the problem early on. A 1982 study of ABC companies found that in order to sustain their job growth rate, 87 percent of the companies surveyed sponsored job training programs, 65 percent job retraining programs, 62 percent handicapped hiring programs, and 53 percent disadvantaged hiring programs.

A 1989 survey of the ABC membership further underscored members' view of the importance of educational improvement. The vast majority — 83 percent — of ABC members described the decline in the quality of American education as "very serious." Asked to rank the severity of that decline at various scholastic levels, ABC members cited grades 9-12 as of greatest concern, followed by grades K-8, college, preschool, and, finally, graduate education.

ABC members were asked to explain the decline in education quality. First on their list was the relative lack of prestige enjoyed by the teaching profession in American society. ABC members also believed that parents were insufficiently involved in their children's education, that there were no incentives in place to encourage students to reach for academic excellence, that curricula needed to be reformed, and that the nation lacked a reliable, standardized measurement to gauge academic achievement.

The diagnosis is not surprising. Respect, involvement, incentives, ability to change in the light of new conditions, accountability: these are principles ABC companies put into play every day. To an extent remarkable for companies of modest size and limited staff resources, ABC firms are intensely involved in applying those principles for the

"We can no longer overlook the needs of the majority of our high school students who directly enter the workforce. They will be our employees, and we must invest in their future."

**Josh S. Weston
Chairman & CEO
Automatic Data
Processing, Inc.**

"Students and educators must know the needs of business and be convinced we will help schools better meet those needs. Business must understand the education system and be ready and willing to make the long-term commitment to be an active partner. THE VITAL LINK is aimed at developing specific conduits that facilitate this process."

**Roger W. Johnson
Chairman, President
& CEO
Western Digital
Corporation**

improvement of education in their communities. This is not the old story of corporations demanding that schools be run more like businesses, whatever that may mean. Rather, it is a statement of belief that across organizations of all kinds, the conceptual keys to higher achievement are the same.

As ABC members talked with one another about their efforts to promote education reform, they sought a way to involve ABC as an organization in the same pursuit. It was not a simple task. The essential paradox presented by education is that, while a matter of national concern, it remains preeminently a local matter. It remains as well an enormously complicated issue: the American education "problem" is in fact a number of discrete dilemmas ranging from preschool funding to securing an adequate supply of doctoral candidates in critical fields.

ABC decided to focus its efforts on improving academic achievement among secondary school students intending to enter the job market after high school. These work-bound students were most in need of incentives to perform well in school.

Virtually from kindergarten, young people learn of the importance for college admission of high grades, extracurricular activities, and good scores on standardized tests. By contrast, students planning to get a job after high school rarely hear of a relationship between scholastic achievement and eventual employment. Too many employers cannot be bothered to look beyond a high school diploma to discover what, if anything, a prospective employee did to earn it. If employers are indifferent to academic achievement, why should work-bound students care?

To break this cycle of shared apathy, ABC in 1989 launched its VITAL LINK project. The VITAL LINK encourages businesses to understand better the skills they seek in new employees, to communicate those criteria to the schools, and to reward with differential pay and superior opportunities for advancement those students meeting the standards. Such incentives enable students to work toward their fullest potential by helping them to understand the opportunities available after graduation.

Conceptually simple, the VITAL LINK promises a revolution in the way business hires high school graduates. Over time, as students learn what skills prospective employers value and see graduates with those skills receive better pay and faster promotions than less able graduates, they will learn that scholastic achievement and meaningful extracurricular experience matter.

The VITAL LINK does not include proposals for changing the structure of schools or school curricula. It may well be that as work-bound students begin to draw a close association between what they learn in school with what they earn on the job, they will ask for more varied courses. Similarly, educators may be spurred to effect innovations to better develop the skills work-bound students seek.

In addition, the VITAL LINK could spawn novel forms of skill assessment as well as new methods for helping students to compile and transmit to prospective employers records of their academic performance, test scores, and relevant work experience. All such innovations would be desirable. From the perspective of ABC and

the VITAL LINK, they are by-products of the core tasks of making businesses more intelligent employers of work-bound students and providing students greater motivation to achieve.

To implement the VITAL LINK, ABC organized a National Steering Committee comprising representatives of leading national business and educational associations. The steering committee oversees a number of demonstration projects in communities around the country.

At these demonstration sites, committees of local business people, community leaders, and school administrators, teachers, and students are working together to establish the feasibility of the VITAL LINK concept. Assuming success, the National Steering Committee will assist in the dissemination of the VITAL LINK model throughout the nation.

The evaluation of each demonstration project will take time. ABC members believe that the potential rewards justify the effort. Helping work-bound students, some of whom are the most disadvantaged young people in the nation, is essential if they are to realize a fair share in a growing economy.

It is said that a rising tide lifts all boats. That assumes that significant segments of the populace are not stranded on islands of apathy and neglect. Education can be a lifeline to these people, if that line is connected to meaningful economic opportunity. The VITAL LINK seeks to supply that connection.

"We've heard a lot today about the work ethic in our country not being up to par with other nations. As American businesses compete for leadership in a global economy, it is imperative that our productivity and the quality of our work be at least competitive and at best exceptional."

**Gloria Bohan
President
Omega World Travel, Inc.**

**The VITAL LINK
National Partners**

**American Association of Community and Junior Colleges
American Association of School Administrators
American Electronics Association
American Federation of Teachers
American Society for Training & Development
Business-Higher Education Forum
The Business Roundtable
Cities in Schools, Inc.
National Alliance of Business
National Association of Manufacturers
National Association of Secondary School Principals
National Association of Wholesaler-Distributors
National Education Association
National School Boards Association**

**The VITAL LINK
Demonstration Sites**

**Fort Worth, Texas
Orange County, California
Montclair/Morristown and Somerset County, New Jersey**



Final Thoughts

"The United States faces the real risk of economic stagnation. But if we restore our faith and determination to save and invest for the future - which served our country so well in the past - our society's advantages in natural and human resources will enable America to grow and remain the most prosperous society in the world."

**George N. Hatsopoulos
Chairman & President
Thermo Electron
Corporation**

Two important points implicit throughout this report should, perhaps, be made explicit at the end.

First, ABC members believe that the future of the nation is in our own hands. If we bequeath to our children a lower standard of living and worsened social conditions, we shall rightly be held responsible. The source of our problems is not overseas. It is here at home, with us, and what we have chosen to do with the extraordinary advantages given to us by past generations of Americans.

Second, to secure the future we would wish for our children, we must cultivate economic growth. This is not to say that growth should be an end in itself. A good society is not measured solely in terms of GNP. Without growth, however, the desire to achieve greater equity in American society devolves into a struggle over life preservers on a sinking ship.

Too often in recent years growth has been treated as a code word for avarice. In fact, it is a synonym for opportunity. ABC executives have made the most of the opportunity created by the nation's past commitment to growth. They want future generations of Americans to have an even better chance to do the same. It is that motive, in essence, that led to the founding of the American Business Conference. It is that motive, too, that will propel the organization into the next decade and beyond.

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About ABC

Since its inception in 1981, the American Business Conference has served as the voice of the midsize, high-growth sector of the economy. Comprising 100 chief executive officers of high-growth companies with revenues over \$25 million, ABC works to create policies which promote fundamental economic growth, job creation and a better standard of living for all Americans.



American
Business
Conference

1730 K Street, NW, Suite 1200
Washington, DC 20006