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Collection/Record Group: Clinton Presidential Records
Subgroup/Office of Origin: National Economic Council
Series/Staff Member: Gene Sperling
Subseries:

OA/ID Number: 20254
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Folder Title:
AFL-CIO Briefing Book for Gene Sperling [binder] [4]

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Withdrawal/Redaction Sheet

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DOCUMENT NO. AND TYPE	SUBJECT/TITLE	DATE	RESTRICTION
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001. memo	re: US Objectives for President Frei's visit (3 pages)	01/24/1997	P1/b(1)
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COLLECTION:

Clinton Presidential Records
National Economic Council
Gene Sperling
OA/Box Number: 20254

FOLDER TITLE:

AFL-CIO Briefing Book for Gene Sperling [binder] [4]

2013-0306-F
jm1230

RESTRICTION CODES

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

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

C. Closed in accordance with restrictions contained in donor's deed of gift.

PRM. Personal record misfile defined in accordance with 44 U.S.C. 2201(3).

RR. Document will be reviewed upon request.

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

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

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15

Divider Title: _____

FAST TRACK - AFL POSITION

In recent years, the AFL has moved away from an across-the-board antipathy to market opening agreements to a more targeted focus on securing explicit protections for labor standards in trade agreements. As the Administration moves ahead on our request for fast track authority, the AFL is likely to push for commitments along two dimensions:

1. Statutory Language regarding Negotiating Objectives: Labor will want an explicit reference to "worker rights" among the list of negotiating objectives for trade agreements that would be covered under fast track procedures. Referencing workers rights is by now standard practice, with precedents in 1988 and 1979 legislation. However, in the last Congress, our efforts to secure fast track failed in large measure because some Republicans -- with the support of business groups such as the U.S. Chamber -- wanted to explicitly preclude labor standards from fast track provisions, while others wanted to drop worker rights from the list of negotiating objectives. This debate is certain to play itself out again as we go forward. Apart from reiterating that we expect the same authority that was granted to two Republican Presidents, we should not publicly commit ourselves to a particular approach on this issue right now, so as not to undermine the prospects that an acceptable outcome could emerge from ongoing consultations with labor and key Congressional Republicans and Democrats.

2. Enforcement of Labor Provisions: Organized labor will also press for stronger labor provisions than those in the NAFTA side agreements for any trade agreements we might negotiate in the future.

The NAFTA side agreements require NAFTA partners to enforce their own laws promoting 11 labor principles (see attached). NAFTA further provides for specific actions that a NAFTA country is permitted to take in response to an alleged failure by another NAFTA partner to enforce its own laws. In the first instance, a country can request government-to-government consultations to review allegations of nonenforcement in any of the 11 areas. For 8 of the 11 principles, a country can further request investigation of the alleged nonenforcement by a panel of independent, outside experts, if the initial government-to-government consultations fail to produce a satisfactory outcome. And finally, for 3 of the 8 investigable areas, fines can be imposed or the "plaintiff" country can withdraw a limited amount of tariff concessions from the offending country if the independent experts group finds a violation.

Organized labor complains that the NAFTA side agreement has no teeth, since the three core labor standards covering industrial relations are neither investigable nor sanctionable under NAFTA. We generally do not take a public position on this issue, other than to reiterate the President's commitment to the NAFTA labor agreement and to cite its success to date. Most proponents recognize that the top priority is securing authority to cover labor standards under fast track negotiating authority for trade agreements and that the substance of labor provisions can be addressed later as a secondary issue.

Consultations only:

Right to organize
Right to bargain collectively
Right to strike

Investigable:

Forced labor
Employment discrimination
Equal pay for women and men
Migrant workers
Safety & health - compensation

Sanctionable:

Child labor
Minimum wage
Safety & health -
protection

J. TRADE

1. **Fast Track:** The AFL Executive Council is likely to consider a resolution stating that fast track negotiating authority should be conditioned on linking worker rights to trade agreements. Frankly, many in the AFL are unlikely to support our bid for fast track negotiating authority under any circumstances. We should not commit at this point to an explicit linkage that will deprive of us of needed flexibility as we seek to build a consensus.

TALKING POINTS

- The President has announced he will seek Congressional authority to negotiate trade agreements. We believe our trade agreements are levelling the playing field for American workers by bringing down foreign barriers against our products. We have insisted on open and fair trade, and we will not settle for anything less.
- There is strong evidence that expanded trade has contributed to the strength of our economy over the last four year, especially the manufacturing base. Our strong competitiveness has allowed us to create and maintain millions of jobs for steel workers, machinists, auto workers, communications workers and others.
- As we work with Congress on negotiating authority, we intend to underscore our commitment to advancing core labor standards, worker rights and environmental protection around the world. We fought hard to advance labor standards as part of the WTO, and we will continue our efforts to persuade other countries that these issues must be addressed if we are to maintain broad-based support for expanding trade.

2. **WTO Labor Standards:** fine as is

February 18, 1997

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GENERAL TRADE FACTOIDS

(Based on Jan-Nov Trade Data)

THE DEFICIT:

- The annualized 1996 **Goods and Services** deficit increased by 4.3% to an estimated \$109.6 billion. This represents approximately 1.4% of GDP, nearly 60% lower than the previous 1987 peak deficit of 3.3%. Much of the pressure on the U.S. trade deficit has arisen from a sharp rise in oil import prices (up 18.5% relative to the first 11 months of 1995). The goods and services trade deficit excluding petroleum dropped by an estimated 10% from 1995.
- The annualized 1996 **Goods** deficit also increased by 5.7% to an estimated \$183.3 billion, and represented 2.4% of GDP, nearly one-third lower than the previous peak in 1987 of 3.4%. The goods trade deficit excluding petroleum dropped by 0.5% from 1995.

EXPORTS

- **Goods and services exports** are up 6.3% (\$49.6 billion) to an annualized record of \$836.1 billion in 1996. The growth rate of **U.S. goods and services imports**, at 6.0%, was slower than that of exports.
- **Goods exports** are up by 6.3% (\$36.3 billion) to an annualized record of \$612.2 billion in 1996. The growth rate of **U.S. goods imports**, at 6.2%, was slightly slower than that of exports.
- **Manufactured exports** are up over 7% to a level of \$521 billion in 1996. **Exports of advanced technology products** (a sub part of manufactured exports) are growing even faster, up nearly 13% to \$156 billion in 1996. The U.S. enjoyed a trade surplus of \$13.6 billion in advanced technology products during 1995, and the surplus is up 95% this year to an annualized level of \$26 billion in 1996.
- **U.S. agricultural exports** are up by 9% to \$61.5 billion in 1996.
- **Services exports** are up by 6.3% to an annualized level of \$223.8 billion. The U.S. had a services surplus of \$68 billion in 1995, and this surplus is up 8% this year to an annualized level of \$73.8 billion.

JOBS SUPPORTED BY EXPORTS

- **U.S. jobs supported by goods and services exports** are estimated to rise by 269,000 in 1996 to 11.3 million (based on first 11 months). Since the beginning of the Administration, jobs supported by exports have risen by 1.5 million, based on a 35% increase in U.S. exports of goods and services since 1992.
- Jobs supported by **Goods** exports to **NAFTA** countries are estimated to be 2.3 million in 1996 (1.56 million with **Canada** and 743 thousand with **Mexico**). This is an increase of 312,000 export supported jobs since 1993 (pre-NAFTA).
- Jobs supported by **Goods** exports to **other countries/regions** (based on 9 months data): to **Japan** are estimated to be nearly 890 thousand in 1996; **China**: 160 thousand jobs; **Latin America (excluding Mexico)**: 585 thousand jobs; **EC12**: 1.2 million jobs; **Hong Kong**: 165 thousand jobs; and **Taiwan**: 210 thousand jobs.
- **Jobs supported by goods exports pay 13% to 16% higher than the national average.**

JAPAN TRADE

- The 1996 deficit with **Japan** is down 22% in 1996. Exports are up 6.3% and imports down by 7.5%. On an annualized basis, the 1996 deficit with Japan is estimated to be \$46.1 billion, 30% lower than its peak in 1994 of \$66 billion. U.S. exports to Japan are estimated to be \$68 billion in 1996.
- U.S. exports of **autos and autoparts** are up 1% from a year earlier, imports are down by 10%, and the trade deficit is down by 11.5%.

MEXICO TRADE

- **With Mexico**, suffering from recession and international liquidity problems, the U.S. goods trade balance moved from a 1994 surplus of \$1.4 billion to a 1995 deficit of \$15 billion, more than accounting for the entire deterioration of the U.S. goods trade balance in 1995. Exports fell by 9.0% —a decline whose size was limited by Mexico's NAFTA obligations. In 1981-83, the period of the previous peso crisis, U.S. exports fell by 50%. The Mexican economy has stabilized in 1996 and the U.S. export decline has come to an end. Through the first 11 months of 1996, U.S. exports to Mexico were 21% higher than a year earlier, and 35% higher than the same period in 1993 (pre-NAFTA).

CHINA TRADE

- **With China**, the U.S. goods trade deficit was \$33.8 billion in 1995. The deficit in 1996 is 16% higher than the same period in 1995. Exports increased by 27% to \$11.8 billion in 1995. Exports in 1996 are up by 0.5%.
- U.S. exports to China are heavily weighted toward higher-valued capital goods. In 1995, 43% of U.S. exports to China were capital goods including aircraft. Industrial supplies made up an additional 37%. U.S. imports from China are dominated by consumer goods (71% of total) such as apparel, toys, and some consumer electronics.

U.S. TRADE DATA --- THROUGH NOVEMBER 1996

(In Billions of Dollars)

Date of December Release: Wednesday, February 19, 1997

MONTHLY TRADE DATA

YEAR TO DATE

FULL YEAR TRADE DATA

GOODS & SERVICE WORLD

	Oct 1996	% Change vs 1995	Nov 1996	% Change vs 1995
Balance	(\$8.0)	16.0%	(\$8.4)	37.7%
Exports	\$71.7	6.2%	\$72.0	5.8%
Imports	\$79.7	7.1%	\$80.4	8.5%

	Jan-Nov 1996	% Change vs 1995
Balance	(\$102.9)	4.3%
Exports	\$763.6	6.3%
Imports	\$866.5	6.0%

	1992	1993	1994	1995	1996*	% Change vs 1995	% Change vs 1992
Balance	(\$38.3)	(\$72.0)	(\$104.4)	(\$105.1)	(\$109.6)	4.3%	186.4%
Exports	\$617.7	\$643.0	\$698.3	\$786.5	\$836.1	6.3%	35.4%
Imports	\$655.9	\$715.0	\$802.7	\$891.6	\$945.1	6.0%	44.1%

GOODS ALONE WORLD

	Oct 1996	% Change vs 1995	Nov 1996	% Change vs 1995
Balance	(\$14.1)	7.5%	(\$14.7)	19.6%
Exports	\$52.9	6.8%	\$52.7	5.9%
Imports	\$67.0	6.9%	\$67.5	8.7%

	Jan-Nov 1996	% Change vs 1995
Balance	(\$170.0)	5.7%
Exports	\$558.9	6.3%
Imports	\$728.9	6.2%

	1992	1993	1994	1995	1996*	% Change vs 1995	% Change vs 1992
Balance	(\$96.1)	(\$132.6)	(\$166.1)	(\$173.4)	(\$183.3)	5.7%	90.7%
Exports	\$440.4	\$456.8	\$502.5	\$576.9	\$612.2	6.3%	39.0%
Imports	\$536.5	\$589.4	\$668.6	\$749.4	\$795.8	6.2%	48.3%

CANADA

	Oct 1996	% Change vs 1995	Nov 1996	% Change vs 1995
Balance	(\$1.4)	-23.0%	(\$1.9)	12.4%
Exports	\$12.1	6.0%	\$11.9	7.0%
Imports	\$13.5	2.0%	\$13.7	7.7%

	Jan-Nov 1996	% Change vs 1995
Balance	(\$20.7)	28.6%
Exports	\$123.3	5.0%
Imports	\$144.0	7.8%

	1992	1993	1994	1995	1996*	% Change vs 1995	% Change vs 1992	% Change vs 1993
Balance	(\$8.0)	(\$10.8)	(\$14.0)	(\$18.1)	(\$23.3)	28.6%	190.0%	116.4%
Exports	\$90.6	\$100.4	\$114.4	\$127.2	\$133.6	5.0%	47.5%	33.0%
Imports	\$98.6	\$111.2	\$128.4	\$145.3	\$156.7	7.8%	58.9%	40.8%

MEXICO

	Oct 1996	% Change vs 1995	Nov 1996	% Change vs 1995
Balance	(\$1.1)	-20.1%	(\$1.5)	-9.2%
Exports	\$5.8	35.1%	\$4.9	24.1%
Imports	\$6.9	21.9%	\$6.4	14.2%

	Jan-Nov 1996	% Change vs 1995
Balance	(\$15.5)	8.1%
Exports	\$51.5	21.3%
Imports	\$67.0	17.9%

	1992	1993	1994	1995	1996*	% Change vs 1995	% Change vs 1992	% Change vs 1993
Balance	\$5.4	\$1.7	\$1.4	(\$15.4)	(\$16.6)	8.1%	-409.2%	-1100.0%
Exports	\$40.6	\$41.6	\$50.8	\$46.3	\$56.2	21.3%	38.3%	35.0%
Imports	\$35.2	\$39.9	\$49.5	\$61.7	\$72.7	17.9%	106.5%	82.2%

NAFTA

	Oct 1996	% Change vs 1995	Nov 1996	% Change vs 1995
Balance	(\$2.5)	-21.7%	(\$3.4)	1.6%
Exports	\$17.9	13.9%	\$16.8	11.5%
Imports	\$20.4	7.9%	\$20.2	9.7%

	Jan-Nov 1996	% Change vs 1995
Balance	(\$36.2)	16.9%
Exports	\$174.8	9.3%
Imports	\$211.0	10.8%

	1992	1993	1994	1995	1996*	% Change vs 1995	% Change vs 1992	% Change vs 1993
Balance	(\$2.7)	(\$9.1)	(\$12.6)	(\$33.6)	(\$39.9)	18.9%	1401.5%	337.7%
Exports	\$131.2	\$142.0	\$165.3	\$173.5	\$189.7	9.3%	44.8%	33.5%
Imports	\$133.8	\$151.1	\$177.9	\$207.0	\$229.5	10.8%	71.5%	51.8%

LATIN AMERICA**

	Oct 1996	% Change vs 1995	Nov 1996	% Change vs 1995
Balance	\$0.4	-37.2%	\$0.8	17.4%
Exports	\$4.8	13.9%	\$4.8	10.8%
Imports	\$4.4	23.6%	\$4.0	9.5%

	Jan-Nov 1996	% Change vs 1995
Balance	\$3.5	-49.3%
Exports	\$47.8	4.8%
Imports	\$44.3	14.4%

	1992	1993	1994	1995	1996*	% Change vs 1995	% Change vs 1992
Balance	\$1.6	\$2.4	\$3.3	\$7.7	\$3.9	-49.3%	142.3%
Exports	\$35.1	\$36.8	\$41.8	\$50.0	\$52.4	4.8%	49.1%
Imports	\$33.5	\$34.5	\$38.5	\$42.3	\$48.3	14.4%	44.2%

JAPAN

	Oct 1996	% Change vs 1995	Nov 1996	% Change vs 1995
Balance	(\$5.0)	4.9%	(\$4.3)	5.0%
Exports	\$5.8	5.5%	\$5.3	-1.9%
Imports	\$10.8	5.3%	\$9.7	1.1%

	Jan-Nov 1996	% Change vs 1995
Balance	(\$43.4)	-22.0%
Exports	\$62.1	6.3%
Imports	\$105.5	-7.5%

	1992	1993	1994	1995	1996*	% Change vs 1995	% Change vs 1992
Balance	(\$49.6)	(\$59.4)	(\$66.7)	(\$59.1)	(\$48.1)	-22.0%	-7.0%
Exports	\$47.8	\$47.9	\$53.5	\$64.3	\$68.4	6.3%	43.2%
Imports	\$97.4	\$107.2	\$119.2	\$123.5	\$114.2	-7.5%	17.3%

CHINA

	Oct 1996	% Change vs 1995	Nov 1996	% Change vs 1995
Balance	(\$4.9)	35.4%	(\$3.0)	9.2%
Exports	\$0.9	-16.8%	\$1.6	40.1%
Imports	\$5.8	23.3%	\$4.6	18.2%

	Jan-Nov 1996	% Change vs 1995
Balance	(\$36.9)	16.0%
Exports	\$10.7	0.5%
Imports	\$47.5	12.1%

	1992	1993	1994	1995	1996*	% Change vs 1995	% Change vs 1992
Balance	(\$18.3)	(\$22.8)	(\$29.5)	(\$33.8)	(\$39.2)	16.0%	114.1%
Exports	\$7.4	\$8.8	\$9.3	\$11.8	\$11.8	0.5%	59.2%
Imports	\$25.7	\$31.5	\$38.8	\$45.5	\$51.1	12.1%	98.8%

PACIFIC RIM**

	Oct 1996	% Change vs 1995	Nov 1996	% Change vs 1995
Balance	(\$2.1)	-20.5%	(\$0.9)	-53.7%
Exports	\$9.3	3.5%	\$9.3	7.1%
Imports	\$11.4	-1.8%	\$10.2	-4.4%

	Jan-Nov 1996	% Change vs 1995
Balance	(\$14.3)	-2.8%
Exports	\$98.7	3.9%
Imports	\$112.9	3.0%

	1992	1993	1994	1995	1996*	% Change vs 1995	% Change vs 1992
Balance	(\$18.8)	(\$16.8)	(\$18.2)	(\$15.2)	(\$14.8)	-2.8%	-21.5%
Exports	\$89.2	\$75.0	\$85.0	\$104.5	\$108.5	3.9%	56.8%
Imports	\$85.1	\$90.8	\$103.2	\$119.7	\$123.3	3.0%	44.9%

EU15

	Oct 1996	% Change vs 1995	Nov 1996	% Change vs 1995
Balance	(\$1.7)	60.6%	(\$1.2)	133.7%
Exports	\$11.4	3.7%	\$10.9	-0.3%
Imports	\$13.1	8.6%	\$12.0	5.5%

	Jan-Nov 1996	% Change vs 1995
Balance	(\$13.3)	59.7%
Exports	\$116.6	3.8%
Imports	\$129.9	7.6%

	1992	1993	1994	1995	1996*	% Change vs 1995	% Change vs 1992
Balance	\$6.6	(\$4.0)	(\$11.7)	(\$8.2)	(\$13.0)	59.7%	-296.2%
Exports	\$107.8	\$101.5	\$107.8	\$123.7	\$128.4	3.8%	19.0%
Imports	\$101.2	\$105.5	\$119.5	\$131.8	\$141.9	7.6%	40.2%

* 1996 is annualized based on first 9 months of data.

** Latin America does not include Mexico; Pacific Rim does not include Japan or China.

Goods Trade Balance
\$ Billions

	Total	Petrol	Nonpetrol
89	-109.4	-44.7	-64.7
90	-101.0	-54.5	-46.5
91	-66.3	-44.2	-22.1
92	-84.5	-44.0	-40.5
93	-115.6	-44.0	-71.6
94	-150.6	-44.3	-106.3
95	-158.7	-47.0	-111.7
96	-164.2	-57.7	-106.5
96/95	3.5%	22.8%	-4.7%
96/92	94.3%	31.2%	162.9%

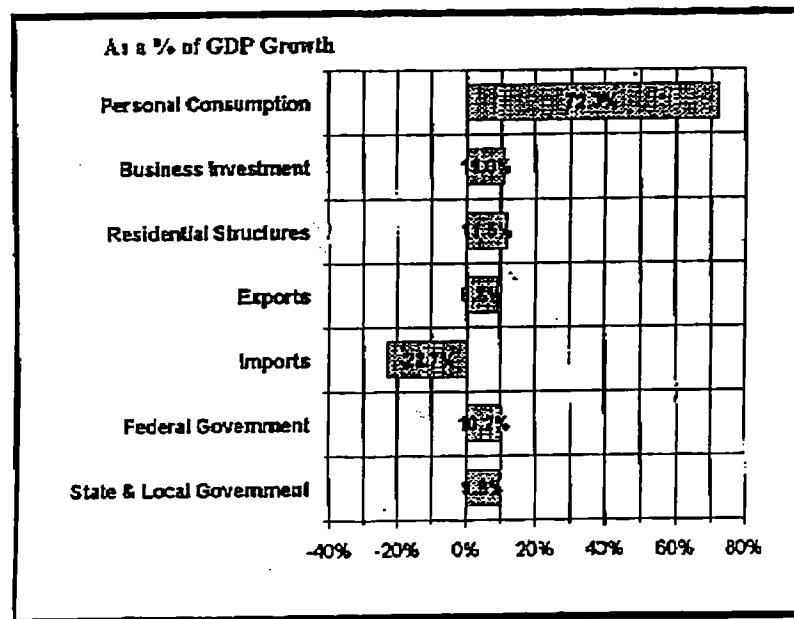
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TWO RECOVERIES COMPARED:

FIVE YEAR PERIOD 1982-1987

Business Investment & Exports contributed 19.8% of GDP growth

Federal Government contributed 10.2% of GDP growth

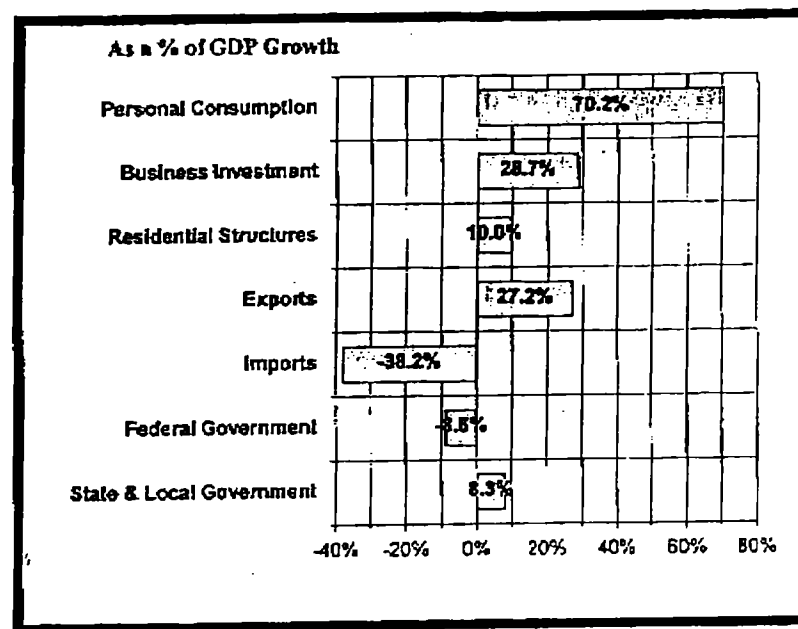
Share of Nominal GDP

Federal Deficit 4.7%
Trade Balance -2.6%

Unemployment Rate (5th Year)..... 6.2%

Non-Agricultural Employment Growth..... +12.4 million
Real GDP Growth..... 22.2%
Real Industrial Production Growth..... 22.1%

FIVE YEAR PERIOD 1991-1996

Business Investment & Exports contributed 55.9% of GDP Growth

Federal Government contributed negative 8.6% of GDP growth

Share of Nominal GDP

Federal Deficit 3.0%
Trade Balance -1.1%

Unemployment Rate (5th Year)..... 5.4%

Non-Agricultural Employment Growth..... +11.3 million
Real GDP Growth..... 13.8%
Real Industrial Production Growth..... 18.8%

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CHILE/LATIN AMERICA VISITS

THEMES FOR FREI VISIT/LATIN AMERICA TRIPS

1. Rising to the Challenge of History. Fifty years ago, America made the commitments and created the institutions that produced victory in the Cold War and built a growing world economy. Now we face another moment of change and choice -- to adapt old institutions to new demands, old ideas to new times. Nowhere are the opportunities greater than in the Americas, where a foundation of democracy and free markets finally is in place. If we build on that foundation -- increasing economic integration and trade, locking in the gains of democracy, finding common solutions to shared problems -- we can complete the historic journey of the Americas from dictatorship, war and command economies to democracy, cooperation and free markets. And the Americas can become a cornerstone for another fifty years of security and prosperity.

2. Building a Community of Free Market Democracies in the Americas. Three years ago in Miami, President Clinton set out a blueprint for integrating our hemisphere around democratic governments, open markets, and cooperation to resolve common problems. Now, our challenge is to build on that blueprint by putting in place the institutions and understandings that will consolidate democracy, extend the reach of open markets, and deepen our cooperation. That's the concrete agenda President Clinton will advance during the Frei visit, his two trips to Latin America, and the Santiago Summit.

3. Making a Difference for Americans and for the Americas. The community of free market democracies President Clinton wants to build will bring real benefits to the American people -- and to all the people of the Americas. It will help people throughout this hemisphere enjoy the fruits of freedom -- human rights, worker rights, the rule of law and civilian government. It will allow goods and services to be traded more freely and fairly -- fueling growth and spreading prosperity. It will give the United States new partners to find common solutions to shared problems like drug trafficking, organized crime, immigration, environmental degradation.

There are two other ideas we should consider weaving in to this thematic mix.

First, we face a choice: to lead -- or be left behind. The Americas and the world are drawing closer together economically and politically. The issue is not whether integration will continue -- but whether the United States will continue to lead in shaping it to our benefit. If we fail to act, our neighbors will find their future with other nations. But if the United States continues to lead, we can consolidate the gains of democracy, open more markets to our products, and deepen cooperation throughout the Americas to meet common challenges like narcotics and immigration.

Second, we have a strategic stake in the success of free market democracies around the world. If we expect the Bosnias of this world to believe in the benefits of peace and democracy... if we want dynamic economies in Asia to fully embrace open markets, then we need to show them that this vision works in our own region. The Americas can be a model for the rest of the world -- provided we make sure that democracy delivers for the people of the Americas. That means helping their governments be more responsive and just... improve education and business opportunities... crack down on corruption... reduce the gap between the rich and the poor etc...

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National Economic Council
Gene Sperling
OA/Box Number: 20254

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- P4 Release would disclose trade secrets or confidential commercial or financial information [(a)(4) of the PRA]
- P5 Release would disclose confidential advice between the President and his advisors, or between such advisors [(a)(5) of the PRA]
- P6 Release would constitute a clearly unwarranted invasion of personal privacy [(a)(6) of the PRA]

C. Closed in accordance with restrictions contained in donor's deed of gift.

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RR. Document will be reviewed upon request.

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

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

American Agriculture Needs a Free Trade Agreement with Chile

A number of U.S. agricultural exports are at a significant competitive disadvantage in Chile. Prohibitive tariff levels and other trade barriers exclude a number of otherwise highly competitive agricultural commodities from this important market altogether.

The discrimination against U.S. agricultural commodities is a direct result of the lack of a free trade agreement between the United States and Chile. While other countries in this hemisphere have negotiated free trade pacts with Chile, the United States government has been bogged down in a lengthy debate over the terms of fast track legislation, which provides special treatment for implementing legislation in Congress. In the meantime, however, Canada, Mexico and numerous Latin American countries have concluded trade agreements that give preferential treatment to their exports. For example:

U.S. phosphate exports from Florida are subject to an 11 percent tariff on arrival in Chile. Phosphate fertilizer from Mexico, however, is given duty-free treatment under a bilateral free trade agreement.

Chile's farmers consume about 200,000 metric tons of prilled urea a year. U.S. urea is also subject to the blanket 11 percent tariff on fertilizer imports, while urea from Venezuela enters Chile duty-free. The current disparity imposes a price disadvantage on U.S. fertilizer of approximately \$24 a ton.

Chile imposes the same 11 percent duty on imports of U.S. citric acid. Under a separate agreement, imports of citric acid from Colombia are duty-free. This creates a \$200 per ton price disadvantage for U.S. product on an average CIF price of \$1800 a ton. Chile consumes approximately 4,000 tons of citric acid per year, largely in candy and soft drinks.

There is no reason that Chile cannot eliminate the blanket 11 percent tariff on these commodities immediately upon concluding a trade agreement with the United States, as there is no domestic production of these commodities in Chile. Besides creating a level playing field for U.S. agricultural exports, immediate elimination of the duty will result in lower prices in Chile for these commodities, assisting farmers and consumers alike.

In addition, Chile imposes nontariff barriers on agricultural imports. Sanitary and phytosanitary restrictions serve as a significant trade barrier to poultry imports and imports of off-season fruit, for example. More recently, however, Chile has imposed a standard for the importation of wheat that is more stringent than most other Latin countries. Where most countries accept the declaration that imported wheat is "from areas where Karnal Bunt (a fungus) is not known to occur," Chile requires that imported wheat be "free from Karnal Bunt."

Thus far, Chile has had little incentive to negotiate over such sanitary/phytosanitary disputes. It is understandable that trade and agriculture officials there would be disinclined to give up potential leverage in overall free trade talks, if and when they do occur.

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One Year After the Summit of the Americas

Remember the Summit of the Americas where President Clinton and the leaders of 33 other nations from the Western Hemisphere committed themselves to the creation of a Free Trade Area of the Americas by the year 2005? More than a year has passed since the ringing declarations of that summit, and it's time to take stock of what has been achieved.

The follow-up process is going well with the government doing what governments do best: create myriad working groups committed to discussing, recommending, drafting and revising recommendations related to each of the Sum-

The Americas

By G. Philip Hughes

mit's 23 goals—the centerpiece being a hemispheric trade agreement.

As sheer process, this is wonderful stuff. But when it comes to the straightforward and modest step of bringing Chile into the North American Free Trade Agreement, thereby expanding our liberal trade pacts with Latin America beyond Mexico, the president and Congress are unable to come to terms.

No one disputes the fact that Chile's economic reforms make it the most qualified Latin American candidate to date to join Nafta. Chile has come a long way since the Pinochet dictatorship. With economic growth rates averaging more than 6% from 1990 to 1994, the Chileans have vanquished inflation, maintained a stable currency, privatized most state-owned enterprises, and brought about a number of necessary market-opening reforms. In fact, because of these advances—and with very few economic sectors directly competitive with domestic U.S. industries—many thought that Chile

had a better case for Nafta membership than Mexico.

So why the delay? It seems that interest group politics and presidential electioneering are mainly responsible for derailing the Free Trade Area of the Americas agenda. And both Congress and the president are at fault.

The Clinton administration, in seeking congressional approval for “fast track” negotiating authority, has insisted that it be empowered to include agreements on labor and environmental standards—backed up by the possibility of trade sanctions—in any agreement. Congress would then have only an “up or down” vote. On Capitol Hill, the Republican majority in Congress has been unwilling to further solidify the precedent that trade agreements should be vehicles for imposing U.S. social agendas on other friendly, democratic nations.

For the Clinton administration, insisting on a linkage between future trade agreements with Chile—or any other country—and sanctions on labor and environmental standards, pleases its core labor and environmental constituencies. And if the administration's insistence on these conditions held up any agreement during the presidential election year, these same constituencies probably wouldn't mind.

Many Republicans, too, feel they have little to lose if the trade agreement with Chile should go by the wayside. Failing to reach agreement with the Clinton administration could keep the divisive issue of trade liberalization—one which pits protectionist populist conservatives against free-market conservatives—off the campaign trail, as well as deny President Clinton a trade “victory” in an election year. That may explain why Bob Dole, the Senate majority leader and a presidential contender, said last week that fast track authority for Chile joining

Nafta is “not going to happen . . . I don't think it's a good idea.”

Campaign politics at both ends of Pennsylvania Avenue is not the only reason for the stalemate. In the wake of Mexico's peso crisis, it is understandable that last year's enthusiasm for free trade expansion in the Americas has weakened. No one can watch the currency of one of our largest trading partners plummet over 60% in value in a year without being sobered.

Given the peso crisis and the political posturing, it is easy to lose sight of what is at stake for the U.S. in the effort to build a Free Trade Area of the Americas. In a re-

When it comes to the straightforward and modest step of bringing Chile into Nafta, the president and Congress are unable to come to terms.

gion that has periodically nationalized, restricted, or otherwise tried to limit U.S. business penetration of many of its markets, the opportunity for a real, enduring opening is at hand.

Throughout Latin America, countries that once pursued closed economic systems are turning away from their old models and embracing policies of privatization and openness to foreign investment and trade. In fact, as free trade has been found to bring lower prices, job creation, greater consumer satisfaction, innovation and growth, our southern neighbors are actively liberalizing their trading arrangements with each other. Mercosur—a customs union of Argentina, Brazil, Paraguay and Uruguay—is presently negotiating with Chile and Bolivia to liberalize market access, and just signed a framework agreement with the European Union.

Thus our European competitors could

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Summary ✓

easily attain free access to the entire South American market before we and our Nafta partners are willing and able to do so. We simply cannot afford to be left behind. The cost to our economy would be tremendous. As Commerce Secretary Ron Brown recently pointed out, "The U.S. alone stands to create two million more jobs as Latin American incomes continue to climb and U.S. exports increase over the next eight years."

A number of sectors of the U.S. economy, moreover, will benefit from closer economic ties with our southern neighbors. U.S. telecommunications equipment exports to the region, for example, topped \$2.7 billion in 1994, up nearly 50% in just one year. In fact, the Latin American market represents close to one-quarter of the world market for U.S. equipment. The market for services—including long distance, wireless and data transmission—and telecommunications equipment will continue to bloom only if we remain committed to freer trade in the region.

With the stalemate on free trade negotiations with Chile, the momentum of the Miami Summit of the Americas is being lost. With it, we risk losing the historic opportunity to replace generations-old suspicions about U.S. business interests in Latin America with a climate of openness and partnership. Equally important, we risk losing the resulting economic growth potential for all the societies of this hemisphere.

Our leaders in Congress and the White House should not allow this to happen. They need to quickly work out a compromise on fast track legislation and bring Chile into Nafta. It's time to get the Free Trade Area of the Americas initiative back on track.

Mr. Hughes, a former ambassador to Barbados, is managing director of the Council of the Americas.

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January 6, 1997

Free Trade Goes South With and Without U.S.

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-

By LARRY ROHTER

MIAMI -- Just over two years ago, President Clinton emerged from a meeting with 33 Western Hemisphere leaders and made an ambitious pledge. By 2005, he promised, a "Free Trade Area of the Americas would stretch from Alaska to Argentina" and "will be the world's largest market."

Since then, barriers to trade and investment have indeed begun to topple, thanks to the dozens of agreements that Latin American and Caribbean countries are signing with one another.

For its part, though, the United States has mostly been sitting on the sidelines, hobbled by what Latin American officials and trade experts describe as a lack of will, leadership and commitment.

"What we are seeing is the consequences of two years of drift," said Robert A. Pastor, director of the Latin America and Caribbean programs at the Carter Center in Atlanta. "Every previous administration was hungry for an opportunity like this, but Latin America wasn't ripe for it. Now that Latin America is genuinely interested, the United States has been out of focus."

The resulting vacuum, largely the product of American electoral politics and the Mexican financial crisis, has quickly been filled by countries like Brazil and Argentina.

Putting aside their historic rivalry, South America's two giants have aggressively taken the lead by forging a four-nation market called Mercosur -- a Spanish contraction of Common Market of the South -- with more than 240 million people, a total annual output of \$1 trillion and a definition of free trade somewhat different from Washington's.

Already the world's fourth-largest unified market, Mercosur is deep in negotiations with the European Union and with neighboring groups in Latin America.

In addition, the Prime Ministers of Japan and China and the President of South Korea have all made state visits to Latin America in the last few months, looking for opportunities in an area they long viewed as a United States preserve. Taiwan's Prime Minister is scheduled to do the same soon.

"What is in fact in the making is a South American Free Trade Area," said Marcos Rodríguez Mendoza, a Venezuelan economist who is the chief trade adviser to the Organization of American States. Economic integration is becoming a "reality," he said, with or without Washington.

In Central America and the Caribbean, a similar process is under way, driven largely by the

Clinton Administration's failure to keep its promise to extend to those regions the benefits enjoyed by Mexico and Canada, Washington's partners in the North American Free Trade Agreement.

As a result of Washington's inaction, the regional groups to which those small countries belong are now seeking agreements of their own with Canada and Mexico, as well as with Mercosur, the European Union and East Asia.

"I think everybody in the hemisphere is keeping all options open," said Richard Bernal, Jamaica's Ambassador to the United States and chairman of the working group for small nations set up at the Miami meeting. "While the United States is the main trade partner, if Nafta does not look like it's going to permit accession in the foreseeable future, then countries have to keep other countries in mind, including relations outside the hemisphere."

Even a cursory glance at trade figures reveals that Washington's economic stake in Latin American and the Caribbean, the fastest-growing market for American exports, is enormous. United States trade within the Western Hemisphere is not only much larger than trade with Europe or Asia, but consistently registers a surplus that helps offset large deficits elsewhere.

An American trade official who deals with Latin America said the Clinton Administration viewed the spread of regional agreements that excluded Washington not as a challenge to American leadership but as something that "can be very helpful to the Free Trade Area of the Americas process."

When Latin American nations link up among themselves, he added, "it makes it easier for them to go the last step," when the time comes to deal with the United States.

"Frankly," the official continued, "we would be doing that ourselves if we had the authority. We are not as far along in the process as we would like to have been."

Chile, which has emerged from military dictatorship to have the fastest-growing economy in Latin America, provides perhaps the best example of United States disengagement and the resulting shifts in economic strategy.

At the 1994 Summit of the Americas meeting here in Miami, the leaders of the three Nafta countries announced plans to expand their group to include Chile through a "fast track" process, with that country's President, Eduardo Frei Ruiz-Tagle, looking on.

"We have been the Three Amigos," Prime Minister Jean Chrétien of Canada proclaimed. "Now we will be the Four Amigos."

But a week later, the Mexican peso collapsed. That forced the United States into a controversial bailout of its Nafta partner and made fast-track membership for Chile politically unpalatable. Then the American election cycle began, killing any chance for bold measures on trade.

In response to what it perceived as America's lack of interest, Chile has negotiated a free trade agreement with Mercosur and revived its ties with the five-member Andean Pact, which this fall began separate talks with Mercosur. Chile recently signed a free trade agreement with Canada to supplement a similar accord it has with Mexico, which had already reached free trade agreements with Colombia and Venezuela.

"The Chileans have been kept standing at the church, waiting for the groom to arrive," said Bernard W. Aronson, who was Assistant Secretary of State for Inter-American Affairs during the Bush Administration. "After a while, to maintain your own dignity, you take off the wedding dress and go find another boyfriend."

With Mr. Clinton about to begin a second term, the next few months will be crucial to bringing the United States back into the process, government officials and economists

throughout the hemisphere said. "We can no longer postpone taking decisions on certain important things," said Ambassador Bernal of Jamaica.

Latin American and Caribbean countries will be looking, their leaders make clear, for evidence of American commitment to reviving the fast-track process, either in the President's State of the Union Address or when President Frei visits the United States in late February.

"If you say no to Chile, you have said no to free trade," said the Foreign Minister of one medium-sized Latin American country. "It is a litmus test." The 2005 deadline remains attainable, the official added, "that is, if you are still interested."

At a conference in Miami on Thursday, Thomas F. McLarty, the former White House chief of staff who is Mr. Clinton's point man on Latin American issues, said the Administration remained committed to free trade and would "continue to lay the legal and economic framework for Chile's accession to Nafta, including fast-track."

If the hemisphere fails to build on the principles of the Miami conference, he said, "we may lose this moment forever."

But Foreign Minister José Miguel Insulza of Chile said membership in Nafta no longer "has either the urgency or the importance it had in 1994." Over the last two years, he added, "our country's position has consolidated internationally and we have signed agreements of great scope."

As a result, government officials and trade analysts say, it is more likely that negotiations will take place between two or more blocs or regions than that Latin American countries will come hat in hand, one after another, asking permission to join Nafta.

One indication of Latin America's growing confidence came recently when President Carlos Saúl Menem of Argentina jokingly said before heading off for a visit to Washington that if the United States and its Nafta partners wished to join Mercosur, they would be welcome to do so.

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 - ☐ NAFTAnet, Sponsored by the North American Forum
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THE WHITE HOUSE

WASHINGTON

February 17, 1997

MEMORANDUM FOR GENE SPERLING

cc: Kathy Wallman
FROM: Dorothy Robyn *DR*
SUBJ: Issues of Concern to AFL-CIO

Three issues in my portfolio may come up in your meetings with the AFL-CIO: aerospace "offsets," ISTEA and American Airlines.

Aerospace "Offsets". In late 1995, as the International Association of Machinists was preparing to enter contract negotiations with Boeing, IAM President George Kourprias asked the President to examine the growing tendency for U.S. aerospace firms to source from foreign suppliers of components and subsystems. Kourprias later met with Laura Tyson, and the NEC began an interagency process to examine this sensitive subject. After a series of meetings with labor and industry officials, and extensive analysis by the Department of Commerce's Office of Aerospace, the NEC group concluded informally that, on balance, international alliances in aerospace create many more jobs than they destroy, although the situation bears close watching, particularly in China. (See attached executive summary of our draft report.) We did not make our conclusions public, both because they did not support the IAM position and because the machinists had appeared to lose interest in the interagency effort once the Boeing strike was resolved.

On a separate but related track, Commerce's Bureau of Export Administration (BXA) published a report in May 1996 on defense "offsets" -- i.e., requirements for local production or other investment imposed by foreign purchasers of U.S. military systems. BXA's analysis left a lot to be desired, and OMB, USTR and NEC commented extensively on various drafts. But we did not challenge the report's basic criticism of defense offsets.

Based on BXA's report, Commerce's Trade Policy Coordinating Committee included a chapter on defense offsets in its September 1996 report. At the eleventh hour, Commerce proposed to add a section on commercial offsets. But the draft was one-sided in its criticism of commercial offsets, and it contradicted the earlier analysis done for the NEC by Commerce's Office of Aerospace. After OMB, USTR and NEC all weighed in, TPCC agreed to drop the last-minute addition and substitute a footnote promising to address commercial offsets in next year's report.

One other piece of history is relevant. Last fall, *New York Times* investigative reporter Jeff Gerth began writing a story about the aerospace industry. After a lengthy meeting with Dan Tarullo and Chris Dorval to discuss what I should say, I spoke to Gerth on background, and Laura later spoke to him on the record. We both emphasized the substantive findings of the NEC process. In doing so, we unwittingly played into his rather bizarre thesis that the handling of this issue by the Clinton Administration reflects the growth in campaign contributions to Democrats from big business relative to organized labor. Gerth got some smaller points wrong as well. Fortunately, the story (attached) ran on Christmas day and so has had little impact.

Mistakenly, I talked to Gerth before talking to the IAM, and so the machinists learned first from him about the outcome of the NEC process. I met with key IAM officials in mid-December (before the Gerth story ran) both to apologize for that and to discuss the NEC findings in more detail. I shared my idea of having the National Academy of Sciences do a workshop and report that would feed into the TPCC's 1997 report. They were very supportive of that idea. Partly as a follow-on to that meeting, Kourpias recently wrote the President asking that the NEC interagency group be made a "permanent fixture charged with the mission of promoting U.S. aerospace production and employment."

I have since met with National Academy officials (representatives from Labor, Commerce and other relevant agencies also attended), and they are willing to do a workshop and follow-up report by July. Such a workshop would, of course, involve experts from industry, labor and academia. It would look at offsets and alliances in two sectors: aerospace and (tentatively) telecommunications. If appropriate, the workshop could be part of a longer (12 to 18 month) Academy study of this issue.

Although I don't anticipate the National Academy will automatically embrace the IAM's position on this issue, I do think a NAS workshop and report could be very useful to labor: First, it will provide a forum for an exchange with industry officials, which is much needed. Second, it will help sort just what "offsets" are, since different people use the word to mean different things. Third, it can focus on the need to do a better job of *measuring* the growth in foreign production; currently, we're reliant on industry for the figures on domestic vs. foreign content, and those figures are calculated using a methodology prescribed by the Export-Import Bank which is fairly crude. Finally, it can help to generate some positive recommendations -- steps the federal government can take to ensure that, at a minimum, international cooperation in aerospace contributes more to U.S. leadership in this important industry.

If asked about this issue, you should respond:

- The NEC-chaired interagency process that was established in 1995 to examine this issue is still in operation. Known as the "Working Group on Aerospace Employment," it has become the Administration's standing group on aerospace issues that affect jobs and the economy.
- We have asked the National Academy of Sciences to convene a workshop on offsets in aerospace this spring. That workshop will, of course, include representatives of labor, as well as industry and academia.
- In addition to examining the offset issue, there may be other things the Administration can do to promote employment in the U.S. aerospace industry, and the NEC is looking at that as well.

ISTEA. State Infrastructure Banks (SIBs) provide greater flexibility to support the financing of projects by using federal-aid funds for revolving loans and other forms of non-traditional financial assistance. Offering only a shallow federal subsidy, SIBs are designed for transportation projects that can be largely (but not entirely) funded by the private sector -- e.g., toll roads. The Administration is requesting \$150 million for SIBs in FY98.

Two years ago when OMB and NEC first proposed SIBs internally, the Department of Labor argued for permanent Davis-Bacon Act (DBA) coverage, whereas OMB wanted a complete exemption. The NEC proposed an approach used by EPA's Wastewater Treatment Revolving Fund, which provides a similarly shallow federal subsidy: namely, require the first round of projects funded by an individual SIB to comply with DBA requirements but exempt subsequent rounds. (If an existing SIB were to get subsequent federal dollars, that would count as a "new" SIB for purposes of DBA.) DOL and organized labor accepted this approach, recognizing that the SIB program, given the type of projects it supports, will never get very big.

The Department of Transportation's interpretation of the resulting legislation has been even more generous to labor. If a SIB project is funded or repaid even partly with federal dollars, *regardless of the funding round*, it must comply with DBA. Thus, only SIB projects that are funded and repaid entirely with state dollars would be exempt under current DOT rules.

Despite the two-year old agreement, organized labor this year raised anew the issue of permanent DBA coverage for any and all projects funded by SIBs. (Labor's revised position seems to reflect the mistaken impression that the SIB program is due to expand significantly.) On policy grounds, labor's proposal is problematic: First, it would represent an expansion of existing DBA coverage, which could set a costly precedent for EPA and other federal agencies. Second, by raising the cost of purely state-funded SIB projects, it would reduce the number of such projects. The Administration has not yet resolved the issue.

If you get a question, you should emphasize, first, that the Administration is carefully considering labor's views. Second, you may want to reiterate that this program, by its very nature, will remain small. (Mort Downey spoke to the AFL-CIO on Saturday, and I will get you a copy of his Q&A on this issue tomorrow.)

American Airlines. The President's action to avert the strike of American Airline pilots does not seem to be a major issue with the AFL-CIO, according to the Vice President's staffer who has talked with union officials. The Allied Pilots Association (APA), which represents American pilots, is independent, having split off from the AFL-CIO's Air Line Pilots Association (ALPA) in 1963. Many ALPA pilots still resent that break in the ranks. Moreover, ALPA represents the 2,000 pilots at American Eagle, the company's commuter line, who are in a position to take jobs away from APA members if American expands the use of regional jets. APA is insisting that its pilots be given the right to fly the smaller planes, but American says it would lose money flying regional jets with the high salaries that APA pilots command. (American on Thursday rejected an APA proposal to have American pilots fly any American Eagle jets at salaries that would keep those flights competitive with other commuter airlines.)

1ST STORY of Level 1 printed in FULL format.

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LENGTH: 1401 words

HEADLINE: Business Gains With Democrats

BYLINE: By JEFF GERTH

DATELINE: WASHINGTON, Dec. 24

BODY:

Last year George Kourpias, leader of the machinists union, used the opportunity of a Labor Day celebration to talk to President Clinton about one of his union's major concerns.

Mr. Kourpias told the President that he thought United States jobs and technology were threatened by the growing tendency of American companies wanting to do business abroad to make concessions to foreign governments or customers, especially in Asia.

Mr. Kourpias says the President told him that he, too, was concerned about this problem. As a result, White House and union officials say, the Clinton Administration promptly began reviewing the issue, focusing on concessions made by the aerospace industry, the crown jewel of American exporters and a major employer of machinists.

But by this year, unknown to union officials, the review was folded into an Administration report that, at the urging of aerospace industry lobbyists, adopted industry positions on the matter. The report also dropped recommendations the union had favored, like a requirement that companies make public disclosures about the concessions they gave.

The story of this report is one example of how business interests have gained influence with Democrats, at the expense of the Democrats' traditional allies like organized labor. At the same time, business donations to Democrats have vastly increased.

"The Clinton Administration cultivated the defense and aerospace industry, and in turn they fertilized the Democratic Party with campaign contributions," said Thomas Ferguson, a campaign finance expert and a political science professor at the University of Massachusetts, at Boston.

The aerospace industry sees it differently.

"The Clinton Administration has decided to let the market be the market," said Joel Johnson, vice president of the Aerospace Industries Association, an organization that represents manufacturers of civilian and military aircraft.

Although large corporations continue to contribute large sums to the Republicans, corporate donations to the Democratic National Committee have more than doubled in four years, while union donations have stayed the same. For every dollar labor gave to the Democrats in 1991-1992, when Mr. Clinton was first elected, business gave four, but by 1995-1996, business donations exceeded labor by a ratio of more than 9 to 1, according to an analysis of election records by Common Cause, a nonpartisan group that favors public financing of elections.

In 1992, the Democratic Business Council of large donors had only 200 members. By 1994, it had 800; today it has 1,900.

And aerospace and defense companies, like the Boeing Company and United Technologies Corporation, have donated hundreds of thousands of dollars to the Democratic committee in the most recent election cycle, much more than they gave before Mr. Clinton's first election.

"Unfortunately, what has happened is that money has taken over what's going on in America," said Mr. Kourpias, whose union contributes to the Democratic committee, but far less than the industry. He said he was upset that his plea to Mr. Clinton about concessions in the aerospace industry fizzled while the Administration responds to companies, "who've given even more money."

Laura D'Andrea Tyson, chairwoman of the President's National Economic Council, said the Administration disagreed with union arguments that concessions to foreign governments or customers had adversely affected United States jobs over all. But she said that "the situation merits close watching."

The Administration stepped into the middle of this policy thicket last summer when 19 agencies, led by the Commerce Department, prepared an annual export policy report for Congress. One section of that report dealt with offsets, which is a broad term covering a variety of trade practices in which companies make concessions in order to win sales or gain access to foreign markets. Last May, in a Congressionally mandated survey, 83 percent of businesses, mostly subcontractors, told the Commerce Department they had been adversely affected by offsets. Often offsets involve shifting some production or technology overseas.

Industry officials were critical of the survey's focus on job losses from offsets instead of on jobs created by export sales. And they were concerned about what the report would say about offsets.

When aerospace lobbyists obtained early drafts of the report, they were not pleased. One draft recommended efforts to limit commercial offsets but with little industry input, while another draft recommended new reporting standards for commercial offsets, industry and Administration officials said.

The reporting standards, one industry official said, were "the worst of all worlds for us, because the better it looks to your customer, the worse it looks to your unions."

The industry weighed in quickly and successfully. The final report released two months ago, in its section on offsets, focused only on military sales. Commercial offsets were mentioned in a brief footnote, which said the issue

The New York Times, December 25, 1996

would be fully analyzed in next year's report.

On military offsets, the report took a cautious approach. It called for talks with industry, labor and trading partners leading to possible bilateral negotiations or changes in government policy, if warranted.

"We don't have enough data about commercial offsets," said William A. Reinsch, the under secretary of commerce for export administration. He added that "the Administration is trying to do a better job" by having a White House task force study the issue, referring to the task force prompted by Mr. Kourpias's chat with Mr. Clinton.

But that task force folded into the Commerce Department-led export policy report.

"We didn't do a report per se, we produced some draft reports, our own internal analysis and then all of this was superseded by the fact that there was going to be a chapter" on offsets in the export policy report, Ms. Tyson said.

And when the Administration, as part of the annual export policy report, debated whether to do something about commercial offsets, the White House came down on the side of industry in opposition to the measures, according to industry and government officials.

The measures were dropped, Ms. Tyson said, because officials "were not compelled by the evidence they had at their disposal."

All of this was unknown to union officials.

"We weren't aware of what was going on in the export report," Mr. Kourpias said. "That's not the way to play the game."

Ms. Tyson acknowledged that the White House only recently informed the union about the status of its study, long after the report was released. But the union may not have been following the issue as closely as when Mr. Kourpias first raised it with Mr. Clinton, White House officials said. Since then, the machinists have completed contract negotiations with companies like Boeing, the largest aerospace manufacturer.

"In the name of increased sales, companies do things they might not do otherwise" such as "shipping technology overseas, some of it taxpayer-funded technology, to companies who couldn't capture the market but who will wind up taking our own work away from us," said Lee Pearson, aerospace coordinator and vice president of the machinist union.

Companies say they are reluctant to give away too much expertise for fear of creating a competitor and point out that aircraft, America's biggest export, are still mostly made in America. But companies also say that to win new business and maintain their work force, they must make concessions. And so the percentage of foreign-made components in United States jetliners is steadily increasing, as is the percentage of foreign sales.

"You have to meet the customer's demand, you have to do what it takes to compete or you're not in business at all and you haven't done your worker any

The New York Times, December 25, 1996

good," said Mr. Johnson of the aerospace association.

Mr. Reinsch said that industry officials privately acknowledged that offsets distorted a market economy but that they also feared that unilateral United States action, like the 1977 Federal law banning foreign bribes, would leave them unable to compete.

"They recognize they have to play by the existing rules or lack of rules until somebody changes them," he said, but "they don't want to call for an end to offsets because it will be seen as offending the Chinese."

GRAPHIC: Graph: "DOLLARS AND CENTS: The Money Factor" tracks total "soft money" (money given to the political parties' national committees) donations by business and labor of \$10,000 or more per election to the Democratic National Committee, from '91-'92 through '95-June '96. Also tracked is membership in the Democratic Business Council, 1992, 1994, and 1996. (Sources: Common Cause analysis of election records; Democratic National Committee)

LANGUAGE: ENGLISH

LOAD-DATE: December 25, 1996

**International
Association of
Machinists and
Aerospace Workers**



9000 Machinists Place
Upper Marlboro, Maryland 20772-2687

Area Code 301
967-4500



OFFICE OF THE INTERNATIONAL PRESIDENT

GL-2 International

January 28, 1997

Subj: Offsets

The Honorable William J. Clinton
President
The White House
1600 Pennsylvania Avenue, NW
Washington, DC 20500

Dear President Clinton:

As you may recall, I accompanied you on part of your Labor Day trip through California in 1995. During our time together, we discussed the devastating impact that "offsets" were having on union membership in the aerospace industry. "Offsets" are a marketing tool used by industry to obtain sales abroad by promising that a portion of manufacturing will take place in those countries that commit to purchases. It is a practice that results in the transfer of technology overseas and threatens the high-skilled jobs in the aerospace industry that you and your Administration have fought so hard to keep in the United States.

I was gratified by your response to my concerns -- soon after our meeting you established an interagency task force headed by the National Economic Council. However, while some progress has been made, I am troubled that consideration of this issue is moving far too slowly.

The issue of offsets is touched upon in a report issued by another interagency body, but that discussion is limited to military offsets. More troubling is the fact that although language in this report reaffirms the serious impact that military offsets are having and will continue to have on the U.S. labor market, its recommendations are so benign that it is hard to imagine that they will be taken seriously or have any effect at all.

Offsets continue to plague the American economy and threaten worker security. We cannot wait any longer for a serious review of this matter. Accordingly, among other things, I urge you to consider taking the following action:

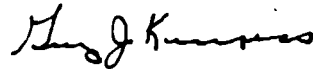
- Formalize and empower the interagency task force that initially took responsibility for examining this issue and make it a permanent fixture charged with the mission of promoting U.S. aerospace production and employment.

- Ensure that non-governmental entities, like representatives from the International Association of Machinists and Aerospace Workers and the aerospace industry, be invited to participate in task force deliberations and decisions.
- Begin discussions with other countries for the purpose of obtaining trade agreements that prohibit aerospace companies (whether they are foreign or domestic) from using the export of jobs and technologies as a marketing tool.

Offsets are a serious problem threatening the nation's ability to retain the high wage, high skill jobs that this nation desperately needs to retain. It must be resolved now. The process that you initiated to address this problem after our discussion on Labor Day more than a year ago must be restarted with the dedication, leadership, and commitment that will effectively resolve the many problems that offsets have created in the aerospace industry.

As always, I look forward to working with you and members of your Administration to address this matter. Thank you for your consideration.

Sincerely,



George J. Kourpilas
INTERNATIONAL PRESIDENT

GJK/sfd

cc: Executive Council
Sweeney
Yokich
Becker

In American Eagle, Union Sees a Threat

Commuter Line Continues to Expand

By ALLEN R. MYERSON

DALLAS, Feb. 13 — They may earn only a third to a half as much as the \$120,000 a year that pilots average at American Airlines. But pilots at American Eagle, the company's commuter line, will put up with no second-guessing of their abilities.

"Their dispute with management has generated some irresponsible rhetoric concerning our qualifications," Homer Pugh, the American Eagle pilot who leads the commuter line's union, said in a statement. "American Eagle pilots' qualifications, skill and professionalism are on a par with any group of professional airmen."

But as the 9,000 American Airlines pilots — in pay and prestige among the princes of the industry — define the threats to their jobs, they point to more than just the company's managers. And rather than seeing American Eagle, already the nation's largest commuter airline, as a way to funnel more passengers to their airline, the American pilots see the 2,000 pilots at American Eagle bearing down on them.

The AMR Corporation, the parent company to both airlines, wants to accelerate American Eagle's already rapid growth by adding as many as 67 medium-sized jets to the current fleet of 205 turboprops. The American pilots say that these pilots and jets, able to link New York and Dallas, will take over many more of their routes.

"The primary issue is the outsourcing of jobs," said David U. Johnson, an American pilot based in Dallas. "If we allow American Eagle to get the jets, upper management will then attempt to take additional flying time away from us, which will end up taking away jobs."

The American Airlines pilots also threatened to strike five years ago over management plans to add jets to the American Eagle fleet.

In 1992 and 1993, the American Airlines pilot's union said, the company furloughed about 550 of its members and turned their routes over to American Eagle and its cramped, noisy, low-flying turboprops. Now, the union says, the company wants to expand American Eagle to take over that much more of the American Airlines system.

Passengers who fly on American Eagle will be shortchanged, the American pilots say. "When they go buy a ticket on American Airlines, they know they're getting an American-trained pilot and an American Airlines jet," Mr. Johnson said. But Mr. Pugh, the American Eagle pilot, said that American Eagle pilots were trained to the same standards as American pilots.

Underneath the technicalities lie the same issues of job security and cost cuts that have split many other industries. AMR says that if American pilots flew the jets for American Eagle, their higher salaries would make the routes uncompetitive. Commuter airlines controlled by rivals already have the jets, which are far quieter, roomier and more popular with passengers than turboprops.

Today, the company rejected a union proposal to have American pilots fly any American Eagle jets, but at salaries that would keep those flights competitive with other commuter airlines.

Stephen A. Frederick, a former American Eagle pilot, said the company was playing the pilots' groups against each other. "The rivalry gets pretty intense," he said. Mr. Frederick said he was dismissed in 1995 for complaining about airplane safety after the 1994 crash of an American Eagle flight in Indiana that killed 68 people.

What many American Eagle pilots want most is to jump to American Airlines, where senior pilots can earn \$200,000. But the addition of regional jets to the American Eagle fleet would still probably increase the pay of pilots who flew them, and allow many other pilots to step up in pay and seniority as well.

American's parent company built American Eagle through acquisitions beginning in 1988. With hubs in Dallas, Miami, Los Angeles, Chicago, New York and San Juan, Puerto Rico, it serves 127 destinations including Canada and the Caribbean.

As at other airlines, American's commuter network has provided essential spokes for the hubs. More than 60 percent of American Eagle's 12 million passengers connect with American flights.

But the American Airlines pilots see American Eagle's growth as predatory. They list the many routes — among them Dallas to Amarillo, Tex., Chicago to Cleveland and Cincinnati, New York to Pittsburgh and Providence, R.I. — that they say have gone from American Airline jet service to American Eagle turbo-

Job security and cost cutting are the primary issues raised by American's pilots.

props.

Several industry analysts said that in their mistrust of Robert L. Crandall, the company's chief executive, pilots failed to see how much they have to gain from American Eagle's expansion and the increased American Airlines traffic that would result.

"If American doesn't get the regional jets, the pilots will lose over time," said Glenn D. Engel, an analyst with Goldman, Sachs. "I wonder whether the demonization of Crandall is the real issue."

The American Airlines pilots union agrees that its own study demonstrates the need for their company to use the regional jets to remain competitive. While they say that American Airlines could operate these jets at an added cost of about \$30 million over five years, the company puts the cost at hundreds of millions. American Airlines flight attendants, machinists and other employees also earn much more than those at American Eagle.

The American Airlines pilots belong to the Allied Pilots Association, an independent union. American Eagle pilots belong instead to the Air Line Pilots Association, the nation's dominant pilots union, which also represents pilots at Delta, United, and many other airlines.

The company even considered continuing to operate American Eagle during a strike, but concluded against it.

The New York Times

FRIDAY, FEBRUARY 14, 1997

Little Progress Seen in Talks With Pilots

'Confusing' Negotiations Cited by American Air

By ADAM BRYANT

WASHINGTON, Feb. 13 — The Allied Pilots Association, the union that has pushed American Airlines to the brink of a strike, is in many ways a misnomer. From its founding in 1963 through recent weeks, its members and leaders have made disunity their hallmark.

Those fissures within the union, by many accounts, are now proving an obstacle to progress in labor talks and may end up stranding tens of thousands of passengers and shutting down the airline Saturday morning. At the same time, the pilots' negotiating posture has reinforced longstanding tensions between them and such lower-paid American employees as flight attendants and baggage handlers.

Despite encouragement from the Clinton Administration to use mediation to settle differences between American's management and the pilots, there was little movement toward common ground today.

Robert L. Crandall, the chairman of American's parent, the AMR Corporation, urged President Clinton today to intervene to avert a strike by forcing the two sides into binding arbitration. James Sovich, the union's president, submitted a new contract proposal to the company late today; the details were not disclosed.

American Airlines executives have expressed frustration all week with the lack of responsiveness from the pilots. The latest round of talks was supposed to begin in earnest on Monday, but the pilots' 18-member board did not arrive here until Tuesday night, and talks did not resume until Wednesday afternoon, after the board met with union negotiators.

Donald J. Carty, president of American Airlines, has described the talks as "very unproductive and even confusing." After the union signaled that it wanted higher wages instead of stock options, the airline responded by adjusting its proposal. The union then dismissed the offer as a step back rather than an improvement.

"This is a very frustrating and disappointing situation," Mr. Carty said today in a recorded message for employees. "We want an agreement, but we need to have someone to have an agreement with."

Continued From First Business Page

Wallace J. Pitts, a spokesman for the Allied Pilots, said that union leaders had been clear on their demands for weeks, and that any appearance of disharmony was a result of "healthy democratic debate."

But it has often been difficult to discern what union officers and the 9,000 members really think. Union leaders, for example, approved a tentative agreement by a close vote last fall and sent it on to members for ratification with a recommendation to approve it.

But a group of pilots organized an intensive lobbying effort to vote it down. The "APA Pilots Defending the Profession," as they called themselves, set up a sophisticated site on the World Wide Web, and used electronic mail to get their message out. Their efforts were helped to some degree by some union officers who sent letters to members suggesting that a better deal could be negotiated with little risk.

Although it is not clear how many votes they swayed, their efforts certainly appeared to have succeeded after the pilots voted down the tentative agreement by almost a 2-to-1 margin.

With a strike nearing, some pilots said that if a vote were taken again today, the original agreement would be approved.

"We would pass that contract in a heartbeat if we had a second chance," said Walter Brown, a pilot who has been flying for American for eight years and voted in favor of the tentative agreement. Mr. Brown said he would like to sue some of his colleagues who organized the Defending the Profession group for representing themselves as would-be union leaders.

"There is a lot of dissension within the A.P.A.," he added.

Even among other employees at American, most of whom will be laid off in the event of a strike, there has

**Among an airline's
employees, there is
little sympathy for
higher-paid pilots.**

been little broad support or sympathy for the pilots, who earn an average of \$120,000 a year.

In one sarcastic barb, many employees at American recently circulated a "Help Feed the Pilots" sign-up sheet that noted "thousands of

pilots in our very own country are living at or just below the six-figure salary line." Employees were told they could sponsor a pilot in the event of a strike for \$300 a day, which could mean the difference between "a vacation fishing in Florida or a Mediterranean cruise."

A second sheet was circulated showing the paycheck stub of an American pilot who made more than \$160,000 last year, over the words, "I'm a pilot and I don't make enough." Some American employees who are not members of the pilots' union also wore buttons recently bearing the acronym S.P.O.I.L.E.D., for Spoiled Pilots' Objective Is Leaving Employees Destitute.

Such tensions, though, are not new for the pilots. In 1963, a group of American pilots, who at the time were members of the Air Line Pilots Association, fomented distrust of the national union and won enough support to form American's own union. But after the split, many pilots felt strongly that all pilots should maintain a unified industrywide union, and resented the move to break ranks with the Air Line Pilots Association, which represents pilots at most major airlines today.

"That union was founded in a bloody boil of dissension," said George E. Hopkins, a professor of history at Western Illinois University, who has written three books on the history of pilot unionization.

Twenty years later, the Allied Pilots Association made one of the most controversial decisions in airline labor history by signing an agreement that created a second, lower tier of wages for new pilots. The plan was intended to help American expand its fleet and market share, and pilot leaders signed the deal at a time of uncertainty and turmoil in the industry following deregulation in 1978.

In the years since, the so-called B-scale has fostered considerable resentment among the lower-paid pilots, and union leaders are now trying to close the gap quickly.

The pilots have also been divided on how best to negotiate with the company. In January 1994, Richard LaVoy, the pilots' union president at the time, agreed with Mr. Crandall to what they called a "fresh approach" to negotiations.

The approach called for the two sides to use binding arbitration to resolve any issues that could not be settled in negotiations. Such a guarantee would have prevented any strike at the airline. But the union's board scrubbed the idea, and four months later the pilots voted in Mr. Sovich, the current president.

Continued on Page D3

The New York Times

FRIDAY, FEBRUARY 14, 1997

Regional Jets Take Spotlight in American Air Dispute

By SCOTT MCCARTNEY
And SUSAN CAREY

Staff Reporters of THE WALL STREET JOURNAL
Regional jets should be the rage of the skies.

The sleek new breed of 50- to 70-seat planes are fast, economical and comfortable, with no middle seats and ample leg room. They can fly nonstop halfway across the country, and travelers don't fear them the way they do turboprop commuter planes.

Airlines like them, too. "The regional jet can fly places you can't fly today at economical costs," says Greg Brenneman, president of Continental Airlines, which plans to use them to service smaller U.S. cities and new international markets.

But the so-called "RJs" have hit turbulence, especially at AMR Corp.'s American Airlines, the nation's second-largest carrier. There, pilots are threatening to strike Saturday unless they — not less well-paid commuter pilots — are given contractual rights to fly the smaller planes. Higher pay for flying any planes is also an issue in the dispute, but that issue appears to be easier to negotiate.

"If there is a strike, it will be an RJ strike," says PaineWebber Inc. analyst Sam Buttrick.

The Allied Pilots Association, which represents American pilots, wants to secure thousands of cockpit jobs created by the new jets. Otherwise, the union argues, the company could "outsource" member pilots' jobs by shifting its routes to its American Eagle commuter subsidiaries.

"If managers don't have outsourcing in their hearts, then why can't they sign our deal?" asks American pilot Ivan Rivera.

Company officials say they would lose money flying regional jets with higher cockpit costs, but that not having the jets would cost American passengers. Indeed, union consultants reached substantially the same conclusion last fall, finding that American pilots would benefit from increased traffic through American hubs. Still, says American President Donald Carty, "regional jets have become an emotional issue for some of our pilots."

When commuter carriers began deploying regional jets in force in the early 1990s, the biggest concern was whether the planes, which cost \$13 million to \$27 million each, would draw enough extra traffic to be profitable.

Bread-and-butter commuter routes of up to 200 miles turned out to be too short to use the jets efficiently, but longer, less-traditional routes — from Cleveland, say, to Providence, R.I. — work well, airline executives say. The planes are even beginning to foster a return to more direct flights between smaller cities, allowing some travelers to avoid hub connections. "In almost every market where it's been deployed, the regional jet has actually stimulated the market," says Alex. Brown & Sons analyst Will Wrightson. "People just prefer jets to turboprops."

The leading plane in this new generation of regional jets is Bombardier Inc.'s

Regionals Take Off

Commuter carriers feeding big airlines are flocking to the new-generation regional jets

AIRLINE	NO. OF REGIONAL JETS	FIRM ORDERS	OPTIONS TO ORDER
Delta	52	38	95
United	15	12	36
Alaska	12	0	0
Continental	4	21	175
Northwest	0	12	24

Note: Regional jets are operated by various commuter carriers affiliated with the major airlines.
Source: Regional Airline Association

Canadair RJ, which is based on one of the firm's corporate jets. The Canadair is most hotly challenged by the Brazilian Embraer 145, which was just recently certified to fly in the U.S.

The new planes are creating all kinds of new opportunities. Independent commuter carrier Mesa Air Group will soon open an all-regional-jet hub at close-in Meacham Field in Fort Worth, Texas, challenging American's giant hub at nearby Dallas-Fort Worth International Airport.

Comair Holdings Inc., a Cincinnati-based commuter line that feeds Delta Air Lines, became the fastest-growing U.S. commuter carrier after it started flying regional jets in 1994.

Comair first used its regional jets to

reach cities that were beyond the range of turboprops from Cincinnati, bringing new traffic into the hub that might have gone through Chicago, St. Louis or Detroit. After opening those new markets, Comair began using the planes to replace larger Delta airplanes at off-peak times. That allowed Delta to move some of its bigger planes to bigger markets, and recently Comair has begun using new RJs to phase out its turboprops.

Houston-based Continental expects to have 25 regional jets in service by June 1998 and has options on 175 more of the 50-seat aircraft. Before deciding to purchase them, the carrier calculated a "turboprop avoidance factor" for different routes, figuring that on some, just replacing a turboprop with a regional jet would increase traffic 20%.

At distances of 500 to 1,000 miles, Continental's regional jets cost about as much to operate as turboprops, and in fact have about the same unit costs as conventional small jets like the Boeing 737, the airline says.

The regional jets fly as fast and as high as 737s, and will replace the larger planes on some routes. That will allow Continental to offer twice the number of flights with the same number of seats in some markets, a move designed to attract business travelers, who typically prefer high-frequency service.

Beginning April 6, Continental will replace its regular airline service between its

Please Turn to Page B8, Column 5

Continued From Page B1

Cleveland hub and cities like Minneapolis and St. Louis with the regional jets. As additional planes are delivered, Continental plans to serve new cities in Mexico and Canada, while also building a special RJ terminal in Cleveland. "It's going to be huge," says David Siegel, president of Continental Express, the airline's commuter subsidiary, which is considering moving to an all-jet fleet.

But while neither Continental nor any of the other carriers plan to eliminate any big-airline jobs with regional jets, the American showdown has prompted other carriers' unions to take a closer look at the issue.

Last October, the head of the pilots' union at United Airlines warned members in a briefing paper that "the RJs are here and arriving in force." The union said Comair has been siphoning passengers to Cincinnati away from Atlantic Coast Airlines, United's commuter partner at Washington's Dulles Airport. But the pilots group has yet to take a position on the 12 regional jets ordered last month by Atlantic Coast.

Northwest Airlines has tried to avoid labor trouble in connection with the introduction of 12 regional jets at its 30%-owned commuter affiliate, Minneapolis-based Mesaba Holdings Inc.

Because Northwest pilots are contractually guaranteed to fly any jets within the Northwest system with 70 or more seats, the Mesaba planes will be configured to carry 69 passengers. Moreover, although the Mesaba jets will take over some routes now flown by Northwest's oldest and smallest DC-9s, the DC-9 pilots will move up to bigger planes.

The pilots union hasn't taken any action to oppose the moves, which it concedes were legal. Still, its members aren't pleased, says Paul Omodt, a spokesman for the Air Line Pilots Association at Northwest. "They took \$300 million that Northwest employees earned and went out and invested in a separate company," he says.

Clinton Presidential Records Digital Records Marker

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

20

Divider Title: _____

February 16, 1997

MEMORANDUM FOR: GENE SPERLING
FROM: PETER ORSZAG
SUBJECT: Economics of unions

In preparation for your trip to the AFL-CIO meeting, you requested an update on the economics of unions. This memorandum focuses on four questions:

- What effect do unions have on wages?
- What effect do unions have on productivity and profits?
- Why has union membership declined?
- What effect has the decline in union membership had on earnings inequality?

The union wage premium

In 1996, the median full-time unionized worker earned \$615 per week -- 33 percent more than the median full-time non-unionized worker, who earned \$462 per week. But this 33 percent figure does not control for differences between the typical union worker and the typical non-union worker, and is therefore not viewed by economists as the most precise measure of the pure union wage premium. For example, union members tend to work disproportionately in larger firms, in cities, and in the manufacturing and public utilities industries -- all of which are associated with higher wages. Studies that control for the worker's education, age, region of residence, metropolitan status, industry of employment, and occupation tend to find a union wage premium of about 10 to 15 percent.

Economists worry that even the 10 to 15 percent range may be misleading, since unions may skim workers with better unmeasured attributes (like innate ability) from their applicant

pools. Studies that attempt to control for this selection bias by using sophisticated econometric techniques have not been particularly successful in obtaining reliable results (Greg Duncan and Duane Leigh, *Industrial and Labor Relations Review*, October 1980; Chris Robinson and Nigel Tomes, *Journal of Labor Economics*, January 1984). But studies that control for the bias by studying the same worker over time -- on the theory that unmeasured characteristics like innate ability don't change very much over time -- have produced generally similar estimates to the traditional ones, although the longitudinal estimates do tend to be slightly smaller (Richard Freeman, *Journal of Labor Economics*, January 1984; George Jakubson, *Review of Economic Studies*, October 1991). While even these longitudinal studies can be criticized, the 10 to 15 percent range is the most credible one within the economics community (as is implicit in the attached article from the Weekly Economic Briefing).

The union wage premium varies substantially over time and across industries and occupations. The attached Figure 1, taken from George Borjas's new *Labor Economics* textbook (McGraw Hill, 1996) shows the variation in the premium over time. John Pencavel and Catherine Hartsog (*Journal of Labor Economics*, April 1984) conclude that the wage premium is countercyclical -- that is, it widens when unemployment is high and narrows when unemployment is low. The countercyclical nature of the premium is not surprising: relative to non-union workers, union workers' wages are protected during recessions -- so the wage premium grows during such periods.

The wage premium also varies along other dimensions. It is higher for low-wage workers than high-wage workers. It is also higher in the construction, transportation, telecommunications, and utilities industries than in other industries. Indeed, the union wage premium is approximately zero in mining and finance (David Card, *NBER Working Paper 4195*, October 1992). The union wage premium in the public sector is on the order of 5 to 10 percent (Robert Valletta, *Journal of Labor Economics*, July 1993; Janet Currie and Sheena McConnell, *American Economic Review*, September 1991).

What do unions do?

The traditional view of economists is that the 10 to 15 percent union wage premium represents an inefficiency: just as monopolists are inefficient because they charge super-normal prices and restrict output, unions are inefficient because they charge super-normal wages and restrict employment. More specifically, the traditional view is that unions artificially restrict employment in their industries -- thereby reducing national output. According to this view, the union wage premium results from “spill-over” effects: workers who can’t obtain jobs in the unionized industries “spill over” into the non-unionized ones, bidding down wages there. In an often-cited study, Albert Rees concluded that wage differentials between otherwise comparable union and non-union workers reduced GNP by 0.3 percent (*Journal of Law and Economics*, October 1963).

In a seminal 1984 book (*What Do Unions Do?*), Richard Freeman and James Medoff argued that this traditional view was wrong. Freeman and Medoff argued that unions provide workers with a direct means of voicing their discontent, and thus reduce voluntary turnover; that unions facilitate cooperation between labor and management; and that unions improve worker morale, motivation, and effort. All three of these mechanisms, Freeman and Medoff emphasize, raise productivity. They conclude that unions improve efficiency, and that the union wage premium primarily reflects the impact of unions’ providing “voice” to their workers (and thus is a benefit for aggregate productivity), rather than the impact of unions’ restrictions on employment (which would reduce aggregate productivity).

Although the question continues to be controversial, the empirical evidence seems to suggest that unions do indeed raise productivity. The attached Figure 2 (taken from Ronald Ehrenberg and Robert Smith, *Modern Labor Economics*) gives estimates of the effect of unions on productivity in different industries. Some of the studies suggest that unions raise productivity more than wages, suggesting that *profitability* may also be higher in unionized firms. But most studies suggest the opposite (that unions reduce profitability). For example,

Kim Clark (*American Economic Review*, December 1984) concluded that unions reduce the rate of return to the firm's capital by 19 percent. Another study found that stock prices fall following the filing of a union petition with the NLRB, and following certification of a union as a bargaining agent (Richard Ruback and Martin Zimmerman, *Journal of Political Economy*, December 1984).

The decline in union membership

As the attached article from the Weekly Economic Briefing notes, union membership in the private sector has declined from 16.5 percent in 1983 to 10.2 percent in 1996. Union membership in the public sector, however, has remained about 37 percent since the early 1980's.

The decline in union membership in the private sector is attributed to several causes. About a third of the decline can be explained by shifts in the structure of the economy away from high-union areas and toward low-union areas: from blue-collar industries to white-collar industries; from the Northern and Eastern regions to the South and West; and from male workers to female workers (William Dickens and Jonathan Leonard, *Industrial and Labor Relations Review*, April 1985; Henry Farber, *Science*, November 1987; Henry Farber and Alan Krueger, *NBER Working Paper 4216*, November 1992).

The other cause of declining union membership is apparently a lower demand for unionization by workers. In 1955, unions won more than 66 percent of the elections held by the NLRB to determine certification as a collective bargaining unit. By 1990, unions won only 47 percent of the elections (Borjas, *Labor Economics*, 1996). The lower union success rate may itself be caused by more aggressive anti-union efforts by management (Richard Freeman and Morris Kleiner, *Industrial and Labor Relations Review*, April 1990). Borjas argues that by hiring a consultant for only 10 days, management reduces the probability that a union will win the NLRB election by 7 percentage points (Borjas, *Labor Economics*, 1996).

Effects of lower union membership on inequality

The wage distribution among union workers is much more equal than the wage distribution for other workers: The evidence suggests that the dispersion of wages in union firms is about 25 percent lower than the dispersion in non-union firms (Richard Freeman, *Industrial and Labor Relations Review*, October 1980; David Card, *NBER Working Paper 4195*, October 1992). Since unionized wage inequality is lower than aggregate wage inequality, unionization tends to reduce wage dispersion in the aggregate economy. The ongoing decline in unionization may therefore have contributed to the increase in inequality in the U.S. since the early 1970's. *The State of Working America* cites three studies showing that 21 percent of the increase in male wage inequality during the 1970's and 1980's was due to deunionization (see attached Figure 3). This year's *Economic Report of the President* also notes that the decline in union membership has played some role -- although a small one -- in increased earnings inequality.

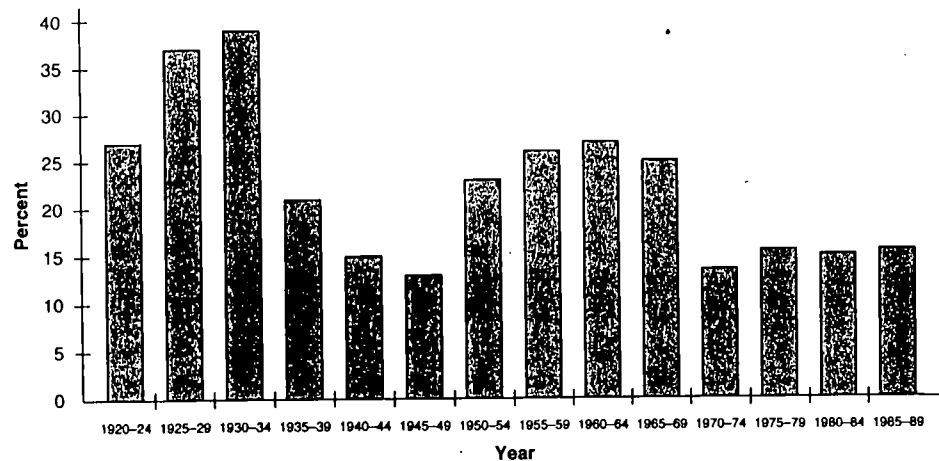


FIGURE 11-12

Wage Gap Between Union and Nonunion Workers, 1920-1989

(Sources: The 1920-1969 data are drawn from John Pencavel and Catherine E. Hartsog, "A Reconsideration of the Effects of Unionism on Relative Wages and Employment in the United States, 1920-1980," *Journal of Labor Economics* 2, April 1984: 193-232. The data for the 1970s are drawn from H. Gregg Lewis, *Union Relative Wage Effects: A Survey*. Chicago: University of Chicago Press, 1986. The data for the 1980s are drawn from Peter D. Linneman, Michael L. Wachter, and William H. Carter, "Evaluating the Evidence on Union Employment and Wages," *Industrial and Labor Relations Review* 44, October 1990: 34-53.)

terpreted as a measure of the union wage gain Δ ? In other words, does the fact that the typical union worker earns 15 percent more than the typical nonunion worker imply that if we became unionized we would also earn 15 percent more? The answer is no!

Suppose that a union contract forces the firm to pay its workers 15 percent more than the competitive wage. Typically, the collective bargaining agreement also makes it difficult for the firm to fire or lay off workers. Because of the very high cost of labor and because the firm is stuck with workers they hire, the firm will want to screen job applicants very carefully. Moreover, the 15 percent wage premium encourages many workers to apply for jobs at the unionized firm. As a result, the firm can choose only the most productive workers from the applicant pool. Over time, therefore, the firm's work force will be composed mostly of workers who are relatively more productive than workers in nonunion firms.

The union wage gap is typically estimated by comparing workers in union and nonunion jobs who have the same socioeconomic background. Because these observable measures of skills do not completely account for skill differentials among workers, the typical worker in a union job will be more productive than a seemingly comparable worker in a nonunion job. The union wage gap, therefore, overestimates the union wage gain. In other words, part of the union wage gap is attributable to the fact that unionized firms "skim" the most productive workers from the applicant pool. As a result, estimates of the union wage gap cannot be used to predict how much a randomly chosen worker in the economy would gain if his or her firm suddenly became unionized.

TABLE 12.8 Estimates of the Impact of Unionism on Productivity in U.S. Industries

Industry/Year of Data	Estimated Impact of Unions on Productivity (percent)
(a) All U.S. manufacturing, 1972	20 to 25
(b) Wooden household furniture, 1972	15
(c) Cement, 1953-76	6 to 8
(d) Underground bituminous coal, 1965	25 to 30
(e) Underground bituminous coal, 1975	-20 to -25
(f) Construction, 1972	17 to 22
(g) Commercial office buildings, 1973-74	30

SOURCES OF ESTIMATES: (a) Charles Brown and James Medoff, "Trade Unions in the Production Process," *Journal of Political Economy* 86(June 1978):355-78. (b) John Frantz, "The Impact of Trade Unions on Productivity in the Wood Household Furniture Industry" (Honors Thesis, Harvard University, 1976). (c) Kim Clark, "The Impact of Unionization on Productivity: A Case Study," *Industrial and Labor Relations Review* 33(July 1980):451-69. (d)-(e) Richard Freeman, James Medoff, and Marie Connerton, "Industrial Relations and Productivity: A Case Study of the U.S. Bituminous Coal Industry" (mimeographed, Harvard University, 1979). (f) Steven Allen, "Unionized Construction Workers Are More Productive," *Quarterly Journal of Economics* 99(May 1984): 251-74. (g) Steven Allen, "Unionization and Productivity in Office Building and School Construction," *Industrial and Labor Relations Review* 39(January 1986):187-201.

Indeed, in 1975 unionized workers were estimated to be 20 to 25 percent less productive than nonunion workers in the industry. This decline in relative productivity has been attributed to the well-known breakdown of the United Mine Workers' (UMW) national leadership that occurred in the late 1960s and early 1970s, which resulted in deteriorating industrial relations practices, including increased occurrence of *wildcat* (unauthorized) strikes over local issues.⁶⁷ These results emphasize that the effects of unions on productivity are neither constant nor always positive; they vary across industries and time periods as industrial relations practices vary.

The two Allen studies cited in Table 12.8 find surprisingly large union productivity differentials in construction—surprising because in the construction industry unions were widely thought to have adverse effects on productivity owing to their restrictive work rules (limits on apprentice/journeyman ratios, limits on the jobs members of each craft can do, etc.).⁶⁸ He attributes the differential, however, to better training in union apprenticeship programs, changes in the occupational mix induced by unions (e.g.,

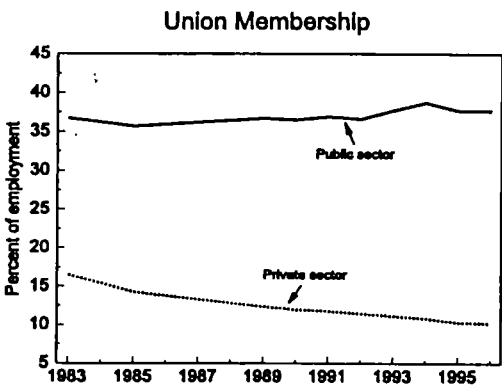
⁶⁷ Richard Freeman, James Medoff, and Marie Connerton, "Industrial Relations and Productivity: A Case Study of the U.S. Bituminous Coal Industry" (mimeographed, Harvard University, 1979).

⁶⁸ Steven Allen, "Unionized Construction Workers Are More Productive," *Quarterly Journal of Economics* 99(May 1984):251-74, and Allen, "Unionization and Productivity in Office Building and School Construction," *Industrial and Labor Relations Review* 39(January 1986):187-201.

CURRENT DEVELOPMENT

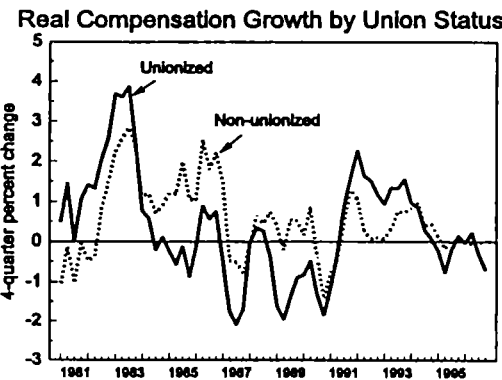
Trends in Union Membership and Earnings

At least three aspects of trends in union membership and earnings are noteworthy.



Membership trends. The overall decline in membership has been concentrated in the private sector (see upper chart). While the share of private sector workers who are union members fell from 16.5 percent in 1983 to 10.2 percent in 1996, the share of public sector workers has remained roughly constant at about 37 percent.

Compensation trends. Compensation has often changed at different rates in the unionized and non-unionized sectors of the economy (see lower chart). During much of the 1980s, for example, compensation grew more slowly in the unionized sector than in the rest of the economy, and more slowly than inflation. More recently, the trends have been similar in both sectors.



Wage premium. Weekly earnings for the typical unionized worker were about a third higher than those of the typical non-unionized worker in 1996. Part of this difference reflects the fact that unionized workers tend to be concentrated in higher paying jobs (in larger firms, urban areas, and manufacturing and public utilities industries). Unionized firms faced with higher wages may also have the ability to

screen for and select workers with better-than-average skills and training from the queue of workers seeking union-wage jobs. Nevertheless, econometric studies that try to control for these other factors suggest that working in a unionized firm raises a worker's earnings by 10 to 15 percent. In short, being in a union matters, even after taking other factors into account.

n in 8, more than a 25%
nized high school graduates
ers, the loss of unionization
by 1.4%. The net effect of
ool wage differential by 1.5

blue-collar wages—lowering
ational than the educational
r 25% and 50%, respectively,
ifferentials in 1988.

ization on workers at various
of deunionization on overall
ity. The data show that unions
e workers, raising the wages
fifths by 27.9% and 16.2%,
-fifths have higher unioniza-
ct of unions on average wages

ge Fifth, 1973-87

Fourth Fifth	Top Fifth	Average
33.5%	12.5%	33.7%
24.7	17.7	26.4
-8.8	7.2	-7.3
0.9%	10.5%	15.9%
2.1	2.1	4.2
-0.1%	0.8%	-1.1%

for these groups is largest—increasing the average wage from 4.9% to 6.6%. Unionization declined more among low-wage than high-wage workers from 1973 to 1987, with unionization actually increasing among the top fifth. The wage impact of changes in unionization was to increase the wage gap between high- and low-wage workers. For instance, an increase in union representation lifted the wages of the top-fifth by 0.8%, but deunionization lowered the wages in the bottom fifth by 4.3%, creating a roughly five percentage point divergence between high and low-wage earners.

The data in Table 3.41 report the results of three studies of the effect of the drop in unionization on overall male wage inequality. These data show that there was sizeable growth in wage inequality between the 1970s and the late 1980s. Remarkably, all three studies found that lower unionization can account for the same proportion of overall higher wage inequality—21%—even though they employ radically different methodologies. Unfortunately, these studies do not examine women's wages. Another study, discussed below (Table 3.47), shows deunionization playing a smaller role among women than men.

Figure 3

TABLE 3.41

Effect of Deunionization on Male Wage Inequality

Item	Wage Inequality		
	1973-87*	1978-88**	1979-88***
Early Year	.227	.235	n.a.
Later Year	.284	.269	n.a.
Change in Inequality	.057	.034	.066
Change Due to Lower Unionization	.012	.007	.014
Deunionization Contribution to Total Rise in Inequality	21%	21%	21%

* Change in variance of log earnings among men age 25-64.

** Change in variance of log earnings among men age 25-65.

*** Change in standard deviation of log earnings among men age 25-65.

Sources: Card (1991), Dinardo, Fortin, and Lemieux (1994); Freeman (1991).

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21

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SOCIAL SECURITY

The basic union position has been to support the existing system, with particular emphasis on the following elements:

- o The social contract, in which all workers participate and all workers benefit¹, with proportionately greater benefits for lower-wage workers
- o The defined benefit (rather than defined contribution) nature of the system
- o Eligibility for early retirement at 62
- o Annual COLAs
- o Survivor and disability provisions

Through Gerry Shea, the AFL-CIO was represented on the Advisory Council, and was a strong member of the Ball faction. The Ball faction was willing to make the following changes:

- o Beginning with new hires, expand Social Security to state and local government workers not now covered.
- o Tax Social Security benefits like other annuity benefits, i.e., the excess of what is received over what was paid would be taxable.
- o Redirect some Social Security tax revenues now going to the Medicare Trust Fund to the Social Security Trust Fund.
- o Adjust the CPI, but only as BLS suggests.
- o Slightly reduce benefits by increasing from 35 to 38 years the time over which wages are averaged to determine benefits or increase the payroll tax by 0.15% for workers and employers.

Retirement Savings Commission

Last year, Senators Bradley and Jeffords and Congressman Pomeroy attempted to get legislation attached to reconciliation that would have established a Retirement Savings Commission, which would have looked into retirement income issues, supposedly entirely from the private pension perspective. The AFL-CIO **strongly opposed** the legislation because of concern that it would spill over into Social Security, saying at the end of the session that killing it was one of their top five priorities. We also voiced our objections to the legislation and it stayed out of any bills. Pomeroy and Jeffords want to bring it up again this year, but so far have not done so.

¹ Note, however, that 3.7 million state and local government employees who are union members do not participate, as state and local governments have an option whether to belong. These workers are covered by defined benefit pension plans that are fairly generous, particularly for long-service workers.

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Divider Title: _____

PENSIONS

ACCOMPLISHMENTS: From the start of the Administration, we've been working to protect people's pensions, and getting results.

- o **Won enactment of the Retirement Protection Act in 1994** to protect the benefits of more than 40 million American workers and retirees in traditional pension plans. Pension underfunding has declined dramatically for the first time in a decade, and many plans are funding up even more quickly than required by the law. This means that the pension promises to both current and future retirees under traditional pension plans will be kept.
- o **Vetoed the Republican budget that would have allowed corporations to raid \$15 billion from pension funds**, affecting almost 4 million workers and retirees. In the 1980s, corporations took over \$20 billion from pension funds.
- o **Recovered nearly \$20 million in savings for workers and retirees** as a result of the Labor Department's ongoing nationwide enforcement effort to protect retirement savings in defined contribution -- 401(k) -- plans.
- o **The minimum wage bill just signed into law contains important pension coverage, portability, and security reforms, many of which we had proposed:**
 - o **Simplifies laws and regulations for all pension plans;**
 - o **Reduces from 10 years to 5 the vesting period for multiemployer plans**, meaning more people will be covered more quickly under these traditional pension plans;
 - o **Discourages 1-year wait:** Encourages employers to allow employees to start saving for retirement from the first day on the job by changing the law that encouraged waiting periods; and
 - o **Creates a new small business 401(k) plan** which can be started with a simple one-page form. Up to 10 million small business workers without a pension could be eligible for a pension under this new plan.
- o **In January, Treasury auctioned the first US government inflation-protection bonds**, providing a totally safe investment for retirement or education that will not lose value due to inflation.

REMAINING AGENDA:

- o **Quickly get out all the forms, regulations and guidance needed to make certain the benefits of last year's legislation are quickly felt by all.** Both Treasury and DOL have made major progress already.
- o **Enact the remainder of the President's Retirement Savings and Security Act, including the multiemployer provisions** doubling the guarantee, granting relief from the compensation limit for benefits (415), loosening the full funding limit and requiring a plan asset valuation only every three years (rather than annually).
- o **Enact our Audit Bill to increase pension security** by requiring (i) full-scale audits of large pension plans and (ii) administrators to report promptly any serious misuse of pension funds.
- o **Continue and expand the on-going retirement savings campaign** begun in 1995 by the Labor Department and 150 private co-sponsors, **including the AFL-CIO**. In 1996, DOL launched a special addition to the program focusing on women's particular pension needs.
- o **Expand coverage and portability by enacting our IRA proposal** which doubles the income limits and allows penalty-free withdrawals for education, first homes, major medical expenses, and long-term unemployment.

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Divider Title: _____

DRAFT

February 11, 1997

MEMORANDUM FOR THE PRESIDENT

FROM: JOHN HILLEY & GENE SPERLING

SUBJECT: COMP TIME AND FAMILY MEDICAL LEAVE ACT LEGISLATION

I. INTRODUCTION

This memorandum offers options for how to achieve the optimal outcome from the current legislative debate on comp time and expansion of the Family and Medical Leave Act (FMLA).

The action-forcing event is the upcoming address of the Vice President to the AFL-CIO annual meeting on February 18. He will be forced to address these issues either in remarks or in questions and answers. Thus, a decision should be made now regarding whether to adopt a strategy of insisting on linkage between FMLA and comp time, and whether to issue any veto threats. The options are laid out in section III below. In each case, the Vice President would articulate the Administration position on February 18 at the AFL-CIO meeting.

The NEC has consulted with the Departments of the Treasury, Labor, and Commerce, and the Small Business Administration.

II. BACKGROUND/ANALYSIS

A. Comp Time

The House and Senate labor committees have already begun to hold hearings regarding comp time legislation: the Ballenger bill in the House and the Ashcroft bill in the Senate. Both bills address only comp time and not FMLA expansion, and they provide fewer guarantees of employee choice and fewer protections against potential abuse than your flex time bill, which was sent to Congress last September. For example, the Republican comp time bills:

- Do not exclude vulnerable workers;
- Do not include special protections for workers whose employers go bankrupt or shut down unexpectedly;
- Do not guarantee real choice for employees because they allow employers to refuse employees' use of comp time if it would "unduly disrupt" operations. (Your bill, on the other hand, allowed employees to take comp time for FMLA purposes at any time, and to take it for other purposes with two weeks notice unless it would cause

- the employer “substantial and grievous injury”);
- Allow employers to cash out employees’ comp time over 80 hours, thereby denying them the use of comp time; and
- Provide weaker remedies for violations.

Your flex time bill has solutions to all of these problems.

The Ashcroft comp time bill has additional provisions that would effectively eliminate the 40 hour week by allowing employers to establish 80 hour biweekly schedules and, in certain circumstances, to pay employees straight time, not time and a half, for hours worked over 40 in a week or 80 in two weeks. Sen. Jeffords plans to mark up the Ashcroft bill on February 26, and Rep. Ballenger plans to mark up his bill in early March. The labor movement strongly opposes the Republican comp time bills, and finds the provisions in the Ashcroft bill that eliminate the 40-hour work week to be particularly offensive.

B. FMLA Expansion

Senator Dodd, Sen. Murray, Rep. Clay, and Rep. Maloney have introduced bills to expand the FMLA. The bills introduced by Maloney and Murray would expand FMLA for an additional twenty-four hours for the purposes of routine medical care for children and elderly parents or school related activities, similar to your bill. The bills introduced by Dodd and Clay would lower the threshold of FMLA applicability from 50 employees to 25 employees, which would cover an additional 10 million employees in small businesses. As you recall, your bill did not include this provision.

The FMLA bills have support from women’s groups and the labor movement, both of which are more enthusiastic about dropping the threshold than providing an additional 24 hours of leave. Most Republicans oppose any expansion of FMLA.

C. Current Democratic Strategy

The current legislative strategy among congressional Democratic leaders is to criticize the comp time bills and try to add the various FMLA expansions to the Republican bills. Your flex time bill has not been introduced, nor is there any Democratic version of a comp time bill. *The labor movement has requested that the Administration threaten to veto any bill that does not (1) improve the comp time provisions to provide real choice and real protections for employees (as in your flex time bill), and (2) link FMLA and flex time.*

III. OPTIONS

Option 1 **Threaten to veto the bill if your principles are not addressed.** The Administration would lay out a set of principles needed for a bill to be truly family friendly. We would say that the bill should include FMLA expansion, and that any bill that does not

meet certain principles will be vetoed. However, we would not link a veto to FMLA expansion. These principles are embodied in your bill from last year:

- **Real Choice for Employees**, including the right to take comp time when needed for FMLA purposes, the right to choose to use comp time for any purpose with two weeks notice to their employer unless use of comp time will cause "substantial and grievous injury" to the employer, the right to cash out comp time for overtime pay on 15 days notice and employers cannot choose to cash out comp time.
- **Real Protection Against Employer Abuse**, including the various protective provisions in your bill that are not present in the Republican bills, such as exclusions for vulnerable workers, special protections in case employers go bankrupt or close down unexpectedly, a prohibition against employers' substituting comp time for paid vacation or sick leave benefits, a prohibition against employers penalizing employees who choose overtime pay instead of comp time, and strong provisions for enforcement.
- **Preservation of Basic Worker Rights.** The Administration would threaten a veto of any bill that eliminates the 40 hour work week, as the Ashcroft bill does.

Pros: A. Would strengthen the position of congressional Democrats arguing to improve the Republican bills. Would encourage congressional Republicans to negotiate in an effort to produce a bill that would become law.

B. If the strategy resulted in changes to the bills, it would significantly improve upon bills that presently do not carry guarantees of employee choice or adequate protection against employer abuse.

C. Would be welcomed by constituency groups that view the Republican bills as a weakening of employee protection laws, and would strengthen the leadership position of Democrats on women's issues.

D. Since this strategy does not threaten a veto if the FMLA expansion is not in a final bill, it has the effect of assisting the Democrats who are trying to add FMLA expansion to the bills without locking you in to a veto on that specific issue.

Cons: A. You might have to veto a comp time bill, although it would be one that would fall far short of the family friendly principles you have laid out.

B. The labor movement strongly prefers a veto threat of any comp time bill that does not address FMLA expansion.

Option 2

Threaten to veto a bill if your principles are not addressed AND FMLA expansion is not included. This strategy is the same as #1 above except that a fourth veto principle would be the expansion of FMLA. The rationale is that FMLA and comp time are linked family friendly policies. Since comp time is not mandatory, the only guarantee that covered workers will have any additional leave is through FMLA expansion amendments. FMLA is one of your signature programs and this is one way to ensure its passage in a Republican Congress.

Pros: Same as A, B & C above. In addition, the AFL-CIO has requested this particular strategy and veto threat. Sen. Kennedy also prefers this strategy and veto threat.

Cons: A. If the strategy fails to produce a bill that includes FMLA expansion, you might have to veto an otherwise acceptable comp time bill just because it does not include FMLA expansion.

B. Sen. Daschle's staff is skeptical that his colleagues will support a strategy that insists on FMLA expansion as the price for any comp time bill, however strong. It is difficult to defend the logic of refusing to accept one positive change in the law merely because a second positive change has not also been made.

Option 3

Introduce principles for a family-friendly bill. We would lay out the principles listed in option #1 above and would insist that they are all vital to a family-friendly bill, but would not explicitly threaten a veto.

Pros: A. Would lay out principles for a bill without locking you in to a veto.

B. Would leave open the option of vetoing a weak comp time bill or a bill that fails to expand FMLA.

Cons: Not likely to produce changes to the Republican bills, thus could make it more likely that you face signing a bill that does not include sufficient employee choice and protections. Signing such a bill would have the dual results of significantly altering the Fair Labor Standards Act without sufficient safeguards and also seriously angering the labor movement and disappointing women's groups.

IV. RECOMMENDATIONS

Needs NEC / OLA rec

The Labor Department strongly supports a veto threat of comp time (options 1 and 2), and is quite opposed to option 3 which does not contain a veto threat and merely states our position on FMLA and flex time. The Department believes that the AFL-CIO would view option 3 as a

somewhat weak statement by the Vice President. Labor has been the most vocal agency by far on all of these issues.

Commerce prefers option 1, threatening a veto of comp time if the principles of the President's flex time proposal are not met, on the grounds that this option provides more flexibility than if a veto is threatened over specific legislation.

The Treasury Department believes that a veto threat seems a bit toothless and that the Administration's position could be served by stressing that it is important to do both flex time and FMLA together.

SBA does not have a strong recommendation, but generally prefers laying out our principles on these issues and not issuing a veto threat, as in option 3, on the grounds that this approach addresses the President's concerns while leaving his options open.

V. DECISION:

Option 1 _____

Option 2 _____

Option 3 _____

Let's Discuss _____

COMPARE PRESIDENT CLINTON'S PROPOSED "FAMILY-FRIENDLY WORKPLACE ACT"
TO
BALLENGER COMP-TIME PROPOSAL (1997)

	President Clinton's Family-Friendly Workplace Proposal	Ballenger Comp Time Proposal
EXPAND EMPLOYEE RIGHTS UNDER THE FAMILY AND MEDICAL LEAVE ACT	The Family and Medical Leave Act is expanded to allow employees 24 hours a year to provide additional care for their children and elder relatives, such as attending parent-teacher conferences, medical or dental appointments, etc., or interviewing at nursing or group homes.	No comparable provisions.
EXEMPTIONS TO PROTECT VULNERABLE SECTORS	To protect against coercion, part-time, seasonal, temporary, garment, and construction workers would be exempted from comp time. The Secretary of Labor would also be able to issue regulations to exclude workers who are vulnerable to coercion or certain occupations and industries where necessary to effectively protect employee rights to overtime pay.	No comparable provisions. Comp time can be offered by any private sector employer to any employees, no matter how vulnerable to abuse, and there is no authority to restrict its availability by issuing notice-and-comment regulations.
EMPLOYEE CHOICE	<i>Employees choose when to <u>earn</u> comp time:</i> • whether to get cash or comp time each time they work overtime, or for a designated period; • whether to cash-out earned comp time with 15 days notice to employer; • whether to keep their earned comp time in the bank for up to three more months after year-end cash-out. Employers may not cash-out employees' earned comp time at their sole discretion to deprive workers of their earned comp time off.	<i>Employers</i> would have the right to cash-out workers' earned comp time in excess of 80 hours at any time with 30 days notice to employee, effectively reducing employees' right to choose comp time off even if reasonable notice was given and there would be no disruption to the employer. Earned comp time must be cashed out by the employer each year with no employee-choice options. <i>Employers</i> maintain ultimate control of when to grant their workers comp time. Regardless of the amount of notice the worker provides, employers can deny use of comp time if they claim the

	President Clinton's Family-Friendly Workplace Proposal	Ballenger Comp Time Proposal
	<i>Employees have more control over when to <u>use</u> comp time.</i> Employees may use comp time for family and medical leave reasons whenever they need it. Workers can use comp time for any purpose as long as they provide two or more weeks of notice, unless it would cause substantial and grievous injury to the employer. They can use comp time with less notice, but only if the employer is not unduly disrupted.	firm would be "unduly disrupted." Employees may withdraw from a comp time agreement at any time.
EMPLOYEE CHOICE (CONTINUED)	Employers would have to cash-out employees' earned comp time within 15 days of the employee's request, upon termination, or annually (unless the employee chooses otherwise).	Employers would have up to 30 days to payout the cash due for accumulated comp time after an employee request.
ASSURE BETTER PROTECTION OF EMPLOYEES' RIGHTS	Workers can accumulate comp time for overtime worked (at a rate of time-and-a-half) in a comp time bank, limited to 80 hours a year in comp time to ensure against abuse. All additional overtime work must be compensated in cash. Employees would receive direct written notice of the plan and regular reports on accrual and use of comp time. Employers could terminate or modify comp time plans only with 60 days' notice to employees. To ensure workers receive their comp time when firms enter bankruptcy, unpaid comp time would receive special protection -- the same ordinarily given to unpaid wages -- in bankruptcy proceedings.	Employees can accumulate up to 240 hours of comp time. The DOL poster would be revised to reflect the comp time amendments, but employees are not guaranteed notice of or information on the accrual or use of comp time hours. Employers could eliminate or modify comp time plans with 30 days notice to employees. Unpaid comp time is treated the same as unpaid overtime compensation. No special protections are provided in bankruptcy proceedings.

	President Clinton's Family-Friendly Workplace Proposal	Ballenger Comp Time Proposal
ASSURE BETTER PROTECTION OF EMPLOYEES' RIGHTS (CONTINUED)	Improves remedies against violators, including double damages for overtime that an employee would have earned, but was not permitted to work because the worker wanted to earn pay rather than comp time, in lawsuits brought by either DOL or private actions. Civil money penalties for violations of minimum wage, overtime, comp time and for recordkeeping violations. Comp time could not be used to replace or substitute for other leave benefits. Unused comp time could not be used to deprive a worker of deserved unemployment eligibility. Comp time is treated as wages for employment benefits purposes, and use of comp time is hours worked for overtime purposes. Explicit protections are included against superseding or diminishing employer obligations under any State or local law or existing agreement or benefit plan providing greater employee protections for comp time.	For violations of anti-coercion provisions, double damages available for employees who earn comp time (i.e., there is no remedy for employees who are denied overtime work because they want overtime pay instead of comp time). Does not change current law on civil money penalties, available only for repeated or willful minimum wage or overtime violations. No comparable provisions on unemployment compensation or health and pension benefit plans. Employers could eliminate or replace paid leave plans based on making the comp time option available. Comp time used is not treated as hours worked. No comparable provisions.
PILOT	Comp time provision expires in four years. Bipartisan Commission will study and report to the Secretary of Labor and Congress before the sunset on the effects of the comp time provisions.	No comparable provisions. Comp time would be permanently authorized in the private sector without regard to its actual effects in the Nation's workplaces or on workers.

President Clinton's "Family-Friendly Workplace Act of 1996"
Compared to 1997 Ballenger Comp Time Proposal (H.R.1)

- *The President's proposal expands employee rights under the Family and Medical Leave Act.*

The President's proposal enables employees to take additional time off (up to 24 hours a year) under the Family and Medical Leave Act for parental involvement and elder care purposes - to participate in children's school activities such as parent-teacher conferences, and to take children or elder relatives to medical or dental appointments or other appointments for professional services, such as interviewing at nursing or group homes. **The Ballenger bill has no comparable provision.**

- *The President's proposal protects the most vulnerable workers.*

The President's bill - but not the **Ballenger bill** - excludes part-time, seasonal, temporary, garment, and construction workers from eligibility for comp time. Further, the Secretary of Labor may take additional steps through rulemaking to protect other employees at risk of losing their rights to overtime pay due to comp time abuses or where otherwise needed to assure proper compensation is paid. **The Ballenger bill has no comparable provisions.**

- *The President's proposal assures employees have greater control over when they use their comp time off.*

The President's bill - but not the **Ballenger bill** - guarantees employees the right to use their comp time for qualifying Family and Medical Leave Act reasons.

It also allows them to use their comp time for other purposes if they give at least two weeks' notice, unless the time off would cause substantial and grievous injury to the employer - under **Ballenger**, the employer can deny employees their use of comp time if it would "unduly disrupt" operations.

The President's proposal allows employees to choose whether they want to delay the annual cash-out of unused comp time for up to three months - **under the Ballenger bill**, there is no such employee-choice option.

- *The President's proposal assures that all workers who earn comp time have their rights protected.*

The President's proposal prevents the accumulation of huge unpaid comp time liabilities by providing for an 80-hour annual limit on earned comp time, compared to the **Ballenger bill's** 240-hour limit.

Employees would receive regular written reports on their accrual and use of comp time under the President's proposal. **The Ballenger bill has no such provision.**

Unpaid comp time would receive special protection in bankruptcies. **The Ballenger bill lacks this protection.**

Stronger remedies are provided by the President's bill for violations of employees' rights compared to the **Ballenger bill**, e.g., damages where overtime work was denied to an employee who wanted pay instead of comp time.

The President's bill - but not the **Ballenger bill** - specifically protects employees against an employer substituting comp time for paid leave or diminishing other employment benefits.

- *The President proposes a temporary pilot and evaluation of the impact of the change on workers and businesses.*

The President's proposal would evaluate the effects of comp time on workers and work places over a four-year temporary pilot. Under the Ballenger bill, comp time in lieu of overtime pay would be permanently authorized in the private sector for the first time in the history of the Fair Labor Standards Act.

Senator Ashcroft's "Family Friendly Workplace Act"

This bill would amend the FLSA to essentially give private sector employees the same benefits of compensatory time off, biweekly work schedules, and flexible credit hour programs (*i.e.*, "flex-time") that presently are available to employees of the Federal government. The "comp time" provisions of this bill are *virtually identical* to H.R. 1, the comp time bill introduced in the House by Congressman Ballenger on January 7.

Comp time provisions

The comp time provisions are the same as the Ballenger comp time bill in the House.

Biweekly Work Programs

Allows an employer to establish biweekly work schedules with overtime due only for hours worked over 80 in the biweekly payperiod *which are requested in advance by the employer* (*i.e.*, hours voluntarily worked over 40 in one week are paid at regular straight time). Overtime requested in advance by an employer may be paid in either overtime pay or comp time off (both computed at time-and-a-half).

Flexible Credit Hour Programs

Allows employers to establish flexible credit hour programs -- the employee elects and the employer and employee jointly designate the employee's basic work hours. Hours worked beyond the basic work requirement can be accumulated as credit hours (hour-for-hour) and used later as paid time off to reduce daily or weekly work hours. Employees may accumulate and "bank" up to 50 credit hours. Hours worked above 40 per week *that are requested in advance by an employer*, other than flexible credit hours, are overtime hours (which may be paid in either overtime pay or comp time off, computed at time-and-a-half). Employers must cash out any unused accumulated credit hours at year-end.

Participation

Employees may not be required to participate in either the biweekly or flexible credit hour programs. Participation may not be a condition of employment. Employers may not intimidate, threaten or coerce employees into electing such programs. Where a valid collective bargaining agreement is in effect, participation may only be according to the agreement.

Limitations on Salary Practices for Exempt Employees

New provisions are added to the FLSA declaring that the fact that an employee is *subject to* deductions in compensation for absences of less than a full work day, or absences of less than a full pay period, shall not be a factor in deciding whether the employee is exempt as a salaried executive, administrative, or professional employee -- only *actual reductions in compensation* may be considered. Reductions in accrued leave do not count as a factor, and payment of overtime or extra compensation also may not be considered as a factor.

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Divider Title: _____

President Clinton Announces New Family-Friendly Workplace Proposals

- ✓ **Expanded Family & Medical Leave**
- ✓ **Employee-Choice Flex-Time**

June 24, 1996

*Nashville Family Reunion Conference Hosted By
Vice President Al Gore*

**PRESIDENT CLINTON ANNOUNCES NEW
FAMILY-FRIENDLY WORKPLACE PROPOSALS:**

- ☐ **EXPANDED FAMILY & MEDICAL LEAVE**
- ☐ **EMPLOYEE-CHOICE FLEX-TIME**

NEW EXPANSION OF FAMILY AND MEDICAL LEAVE: *President Clinton's new proposal would deepen and expand Family Leave by allowing a worker to take unpaid hours off -- with a maximum of 24 hours a year -- for child education, older relatives' health needs, and routine family medical purposes.*

Current Family and Medical Leave Law. The FMLA helps families only with a medical crisis or special limited care-giving needs, such as a birth or adoption. But working families often have to care for children or parents in circumstances for which they cannot use Family and Medical Leave.

New Family And Medical Leave Procedures. FMLA expansion would be limited to 24 hours a year for the following specific purposes:

- **SCHOOL ACTIVITIES.** Participating in school activities directly related to the educational advancement of your child, such as parent-teacher conferences or interviewing for a new school;
- **ROUTINE FAMILY MEDICAL PURPOSES.** Accompanying your child to routine dental or medical appointments, such as annual checkups or vaccinations;
- **OLDER RELATIVES' HEALTH NEEDS.** Accompanying an elderly relative to routine medical appointments or other professional services related to the care of the elderly relative, such as interviewing nursing homes or group homes.

NEW EMPLOYEE-CHOICE FLEX-TIME: *President Clinton's new proposal would offer American workers more choice and flexibility in finding ways both to earn the wages they need to support their families and still find the time they need to be with them. The President's proposal would:*

- **EMPLOYEE CHOICE.** Allows employees to agree with their employers to work overtime in exchange for paid time-off -- flex-time -- with a limit of up to 80 hours. An hour of overtime could thus be used for 1-and-1/2-hours of overtime pay or 1-and-1/2 hours of flex-time.
- **FLEX-TIME FOR ANY PURPOSE WITH 2 WEEKS NOTICE.** Workers could use their earned flex-time for any reason -- as long as they give their employers 2 weeks notice.
- **EMPLOYEES CAN ALWAYS CHOOSE PAY OVER FLEX-TIME.** Workers would maintain the right to choose overtime pay, and even if they choose flex-time, they could still cash out any portion of their flex-time pay with two weeks notice.
- **FLEX-TIME FOR FAMILY LEAVE.** Employees can use their accumulated family flex-time for family leave purposes at any time.

OPPOSE ATTEMPTS TO REDUCE WORKER CHOICE: *In announcing these new family-workplace proposals, President Clinton made clear that he would oppose any bill that allows for coercion and uses phrases like "comp-time" as a cover for giving workers less choice in the workplace.*

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EXPANDING THE FAMILY AND MEDICAL LEAVE ACT -- TO HELP FAMILIES BALANCE WORK AND FAMILY RESPONSIBILITIES

June 24, 1996

"Family and medical leave is a matter of pure common sense and a matter of common decency. It will provide Americans what they need most: peace of mind. Never again will parents have to fear losing their jobs because of their families."

-- President Clinton at the signing of the Family and Medical Leave Act, February 5, 1993

PRESIDENT CLINTON DELIVERED ON HIS PROMISE TO PROVIDE FAMILY

LEAVE: In his first month in office, President Clinton delivered on his promise and signed the Family and Medical Leave Act of 1993 into law. The law allows workers at businesses with 50 or more employees to take up to 12 weeks of unpaid, job-protected leave to care for a newborn or adopted child, to attend to their own serious health needs, or to care for a seriously ill parent, child or spouse.

NEW BIPARTISAN REPORT SHOWS THE LAW IS WORKING: The recent report on the impact of the law by the bipartisan Commission on Leave -- chaired by Senators Dodd and Craig -- shows that the law is working:

- **67 million Americans -- over half of workers -- are guaranteed they can take leave** from their job to care for a sick relative or a newborn child without fear of losing their job or their health insurance.
- **More than 12 million eligible workers have taken leave since its enactment.**
- **40% of all workers think they will need to take leave for a covered reason** at some time in the next 5 years. The leading reason is to care for a seriously ill parent.
- **Despite opponents' claims, compliance is easy and costs low for most employers:**
 - 9 in 10 employers find the law "very" or "somewhat" easy to administer
 - Compliance entails either little or no costs for 89%-99% of businesses
 - Smaller covered worksites found it easier to comply than the larger sites.
- **Some businesses have reported reduced employee turnover, enhanced productivity** and improved morale which they attribute to the Act.

NOW IT IS TIME TO EXPAND THE LAW TO BETTER HELP WORKERS CARE FOR THEIR CHILDREN AND PARENTS. While the law is a major step forward, it does not cover many situations facing working families. Today, President Clinton proposed expanding the law to cover more family obligations to better help working families care for their children and elderly relatives without sacrificing their work obligations. Under the proposed expansion, workers could take up to 24 hours of leave each year to meet additional specified family obligations, including routine doctors appointments and parent-teacher conferences. Leave could be taken for the following purposes:

- **Participating in school activities** directly related to the educational advancement of your child, such as parent-teacher conferences or interviewing for a new school;
- **Accompanying your child to routine dental or medical appointments**, such as annual checkups or vaccinations;
- **Accompanying an elderly relative to routine medical appointments or other professional services** related to their care, such as interviewing nursing homes or group homes.

PRESIDENT CLINTON'S NEW EMPLOYEE-CHOICE FLEX-TIME PROPOSAL

TODAY, PRESIDENT CLINTON ANNOUNCES A NEW EMPLOYEE-CHOICE FLEX-TIME PROPOSAL. President Clinton's employee-choice flex-time proposal would help to make workplaces more family friendly by ensuring worker flexibility while guarding against abuses by coercive or unstable businesses -- with explicit protections against coercion. President Clinton's proposal would allow more Americans to have the time they need to fulfill their responsibilities as both workers and as parents or grown children of elderly relatives.

- **Workers could agree with their employers to receive extra paid time-off -- "flex-time" -- instead of working overtime for cash pay.** Consistent with existing law, workers would get time-and-a-half in flex-time -- extra paid time-off -- for each hour of overtime. There would be a limit of 80 hours that a worker could accumulate in flex-time. And all additional overtime work -- beyond the limit -- would have to be paid in cash.
- **Employees can choose to use their flex-time for family and medical leave purposes whenever they need it.** At any time, workers can use their flex-time for family and medical leave purposes -- to care for a new born or adopted child, to attend to their own serious health needs, or to care for a seriously ill child, parent, spouse.
- **Workers maintain ultimate control of when to use flex-time, as long as they provide two weeks notice to their employers.** Employees can use flex-time for any purpose as long as the worker gives at least two weeks of notice to his or her employer, or with less notice if the employer's operations are not unduly disrupted. Private-sector employees may elect to cash out their flex-time for cash due as long as two weeks of notice is given to their employer.
- **To protect against abuses by coercive or unstable businesses, the employee-choice flex-time proposal includes explicit protections against coercion.**
 - ▶ **Employees and employers would have a written flex-time agreement.** President Clinton's employee-choice flex-time proposal would also require employees and employers to agree in writing that the worker will receive flex-time -- instead of cash pay -- before the worker performed any overtime work.
 - ▶ **Private-sector workers can get cash for their accumulated flex-time within two weeks of notice.** With two or more weeks of notice, a worker in the private sector can cash out their flex-time for cash due.
 - ▶ **Protecting workers from businesses that go bankrupt.** To ensure workers receive their accumulated flex-time when their employers seek bankruptcy protections, unpaid flex-time would receive special protection -- the same as given to other wages -- in bankruptcy proceedings. For employees in thinly capitalized businesses, additional protections will be included.

▶ **Additional protections to ensure that worker protections:**

- President Clinton's employee-choice flex-time proposal would not allow unused flex-time to deprive a worker of unemployment compensation that he or she has earned.
- To ensure protections against coercion, part-time, seasonal, and temporary workers would be exempted from this proposal. The Secretary of Labor would also be able to make recommendations to exclude low-wage workers who are vulnerable to coercion or certain occupations and industries that show a pattern of abuse.

- ▶ **Ability to collect from violators of overtime laws are improved.** President Clinton's employee-choice flex-time proposal improves the Labor Department's ability to collect fines due from violators of overtime laws, including double damages for certain egregious violations. This proposal also imposes civil money penalties for violations of flex-time and for willful or repeated recordkeeping violations.

PRESIDENT CLINTON WILL STRONGLY OPPOSE ANY BILL THAT REDUCES WORKER CHOICE IN THE WORKPLACE. President Clinton will strongly oppose any bill that allows employers to coerce their employees fails to protect true worker choice and fails to guarantee that workers will receive the compensation they are due.

**COMPARISON OF PRESIDENT CLINTON'S EMPLOYEE-CHOICE FLEX-TIME PROPOSAL
AND
REPRESENTATIVE BALLENGER'S COMP-TIME PROPOSAL**

	PRESIDENT CLINTON'S EMPLOYEE-CHOICE FLEX-TIME PROPOSAL	REPRESENTATIVE BALLENGER'S COMP-TIME PROPOSAL
WRITTEN AGREEMENT	To provide true employee choice, employees and employers must agree in writing that compensation will be provided as flex-time rather than as overtime wages.	No written agreement is necessary -- only an understanding.
FLEX-TIME FOR FAMILY AND MEDICAL LEAVE PURPOSES	Employees may use flex-time for family and medical leave whenever they need it.	No comparable provision.
USE OF FLEX-TIME	Employees maintain ultimate control of when to use flex-time, as long as they provide two weeks notice to their employers. Workers can use flex-time for any other purpose as long as they provide two or more weeks of notice. They receive flex-time with less notice, but only if the employer is not unduly disrupted.	Employers maintain ultimate control of when to grant their workers flex-time. Regardless of the amount of notice the worker provides, employers can deny use of comp-time if the firm claims they would be "unduly disrupted."
PAYOUT OF FLEX-TIME	Private-sector employees may elect to cash out their flex-time for cash due with at least two weeks of notice to their employer.	Rather than ensuring payout within two weeks as the President's proposal, private-sector employers would have up to 30 days to payout the cash due for accumulated flex-time.
FLEX-TIME BANK	Private-sector workers can accumulate flex-time for overtime worked (at a rate of time and a half) in a "Flex-time Bank." There would be a limit of 80 hours that a worker could accumulate in flex-time. All additional overtime work must be compensated in cash.	Employees can accumulate up to 240 hours of comp-time.

BANKRUPTCY PROTECTION	To ensure workers receive their flex-time when firms enter into bankruptcy, unpaid flex-time would receive special protection -- the same as given to wages -- in bankruptcy proceedings. For employees in thinly capitalized businesses, additional protections will be included.	No comparable provisions.
ENFORCEMENT PROVISIONS	Improves remedies against violators, including double damages for overtime that an employee would have earned, but was not permitted to work because the worker wanted to earn pay rather than flex-time. Civil money penalties for violations of flex-time and for willful or repeated recordkeeping violations.	Double damages only for willful violations of anti-coercion provisions. Civil money penalties only for willful violations.
TREATMENT OF FLEX-TIME AS WAGES AND HOURS WORKED	Unused flex-time cannot be used to deprive a worker of unemployment compensation that he or she has earned. Flex-time pay-outs are treated as wages for health and pension benefit plans. Flex-time used is also treated as hours worked for overtime accrual purposes.	No comparable provisions on unemployment compensation or benefit plans. Comp-time used is not treated as hours worked.
EXEMPTIONS FOR VULNERABLE SECTORS	To ensure protections against coercion, part-time, seasonal, and temporary workers would be exempted from this proposal. The Secretary of Labor would also be able to make recommendations to exclude low-wage workers who are vulnerable to coercion or certain occupations and industries that show a pattern of abuse.	No comparable provisions.
SUNSET	Flex-time provision expires in four years. Bipartisan Commission will study and report to the Secretary of Labor and Congress prior to sunset.	No comparable provision.

HOW THE PRESIDENT'S FAMILY-FRIENDLY PROPOSALS WOULD AFFECT TYPICAL FAMILIES

NOTE: These hypothetical examples illustrate how the President's proposal compares with current law and the Ballenger bill to create "comp-time." All of these examples assume the adoption of some proposal allowing the accumulation of flex-time or "comp-time" in lieu of time-and-one-half pay for overtime.

1. **Expanded Family And Medical Leave For Child Education Purposes.** Jane Smith works for XYZ Inc. She has a conference scheduled with her daughter's teacher for three weeks from today and needs four hours of time off to travel to and from the school and meet with the teacher. Jane is willing to take unpaid leave.
 - ✓ Under the President's proposal, Jane can take unpaid leave to attend the parent-teacher conference.
 - ☒ Under current law, Jane is not assured she can take unpaid leave to attend the parent-teacher conference.
 - ☒ Under the Ballenger bill, Jane is not assured she can take unpaid leave to attend the parent-teacher conference.

2. **Expanded Family And Medical Leave For Caring For Older Relative.** While Jane Smith is tending to her daughter's educational needs, Jane's husband John needs to help move his grandfather from one nursing home to another. John will need 4 hours time-off in order to do this. Because he is very involved with his family, John has not worked any overtime this year and does not have any accumulated flex-time. Thus, he would like to use unpaid family and medical leave to take his grandfather to the doctor.
 - ✓ Under the President's proposal, John can take unpaid family and medical leave to move his grandfather from one nursing home to another.
 - ☒ Under current law, John cannot use family and medical leave to help move his grandfather from one nursing home to another.
 - ☒ Under the Ballenger bill, John cannot use family and medical leave to help move his grandfather from one nursing home to another.

3. **Employer-Imposed "Comp-Time."** Bill Johnson and his family live on a very tight budget. The time-and-one-half pay Bill receives for the 10 hours of overtime he works each month provides just enough money to pay the mortgage on his family's house. In his latest paycheck, Bill's employer inexplicably did not include any pay for his overtime work. When Bill complains, his boss explains that this is the new "comp-time" program and from now on Bill will get extra time off in return for his overtime. Bill fears he will not be able to make ends meet. He doesn't remember agreeing to accept "comp-time."

- ✓ Under the President's proposal, Bill and his employer would have to had agreed in writing prior to the overtime that he would accept flex-time instead of time-and-one-half pay. Otherwise, Bill must be paid his time-and-one-half in cash.
- ✓ Under current law, Bill would have to be paid time-and-one-half in cash for the overtime he worked.
- ☒ Under the Ballenger bill, the employer could say that he had a verbal agreement with Bill to give him "comp-time." That makes it Bill's word against his employer's word.

4. **Flex-Time For Planned Family Needs.** Ann's husband Bill has a heart condition and will require heart surgery within the next few weeks. Ann wants to spend time with Bill after the surgery to help care for him. Her family's growing financial worries make it vital that Ann be able to use her accumulated flex-time to be with her husband without losing a day's pay. Ann and Bill scheduled the surgery three weeks in advance and Ann gave her employer two-weeks notice. Two days before the surgery, Ann's employer ZYX Co. decides to change their production schedule. In their view, Ann's absence will "unduly disrupt" the workplace operations.

- ✓ Under the President's proposal, Ann can use her accumulated flextime to be with her husband without losing pay -- as long as she gives two-weeks notice.
- ☒ Under current law, Ann is assured only of unpaid family and medical leave time.
- ☒ Under the Ballenger bill, Ann cannot use her accumulated "comp time" if it will "unduly disrupt" her employer's operations. ZYX Co. can force her to take unpaid leave to be with her husband in the hospital.

5. **Protection of Unemployment Benefits.** Al Jones is a construction worker who got laid off from Builders Inc. after it finished its latest project. He worked enough overtime to accumulate 80 hours of accrued flex-time. Now, he wants to collect the unemployment benefits he usually gets when his employer lays him off. This time, however, Builders Inc. challenged Al's eligibility for unemployment insurance on the grounds that he is still "working" because he is getting paid for his accumulated flextime.

- ✓ Under the President's proposal, Al is explicitly protected from this type of challenge. If he's otherwise eligible, Al should get his unemployment insurance.
- ☒ Under the Ballenger bill, Al is not explicitly protected from this challenge to his unemployment insurance eligibility.

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HIGHLIGHTS OF THE PRESIDENT'S INITIATIVES TO MAINTAIN AND EXPAND WORKERS' COVERAGE

Because most Americans have employment-based health insurance, health care coverage is often jeopardized for workers who change jobs. In fact, over 50 percent of the uninsured lost their health insurance due to a job change. Many of these uninsured Americans are the spouses and children of workers. The President's initiative will provide temporary premium assistance to families with workers who are in-between jobs. For millions of these workers and their families this assistance could make it possible for them to maintain their health care coverage while looking for another job. This initiative is fully paid for within the President's FY 1998 balanced budget plan. In addition, to assist small businesses - which often have more difficulty providing and maintaining health care coverage for their workers -- the President has proposed to help States create voluntary purchasing cooperatives.

Funding

Invests \$9.8 billion over the budget window and is paid for in the President's FY1998 balanced budget.

Eligibility

Helps an estimated 3.3 million Americans in 1998, including about 700,000 children.

- A full subsidy would be provided up to 100% of the poverty level for and would be phased out at 240% of the poverty level.
- To assure that limited federal dollars are cost-effectively targeted, individuals who are eligible for Medicare, Medicaid or who have an employed spouse with coverage, are not eligible for this program.
- While low-income workers would certainly be helped by this benefit, over half of participants would come from families who previously had incomes over \$30,000, for a family of four.

Coverage for Families of Workers Who Are In-Between Jobs

Helps to assure that Kassebaum-Kennedy protections against pre-existing conditions are not placed at risk because of breaks in insurance coverage. It achieves this goal by helping working families retain their health coverage through premium assistance during a time in which they lose much of their income.

Gives States the flexibility to provide coverage in ways that best meets the needs of their populations. States would have flexibility to administer their own programs, (e.g., COBRA, a private insurance product, Medicaid, or an alternative means of coverage).

Voluntary Purchasing Cooperatives

Small businesses have more difficulty providing health care coverage for their workers because they have higher per capita costs due to increased risk and because of extraordinarily high administrative costs.

The President's budget will make it easier for small businesses to provide health care coverage for their employees, by allowing them to band together to reduce their risks, lower administrative costs, and improve their purchasing power with insurance companies.

His budget proposes to empower small businesses to access and purchase more affordable health insurance through the use of voluntary health purchasing cooperatives. This will be accomplished by providing \$25 million a year in grants that States can use for technical assistance, by setting up voluntary purchasing cooperatives, and by allowing these purchasing cooperatives to access to Federal Employees Health Benefit Plans.

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