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## RESTRICTION CODES

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P6 Release would constitute a clearly unwarranted invasion of personal privacy [(a)(6) of the PRA]

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RR. Document will be reviewed upon request.

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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]

AFL-CIO
815 16th Street, NW,
Washington, DC 20006
PHONE: (202) 637-5165
FAX: (202)508-6967

Cc: MS
KS
VG

Date:

TO: Bob Lawrence

FAX #: 395-6958

FROM: Thomas I. Palley, Assistant Director of Public Policy

RE: Manufacturing Jobs

There is/are 4 page(s) following this cover sheet.

COMMENTS:

# American Federation of Labor and Congress of Industrial Organizations

815 Sixteenth Street, N.W.
Washington, D.C. 20006
(202) 637-5000
http://www.aflcio.org



Dr.Robert Lawrence
Member, Council of Economic Advisers
Old Executive Office Building
Washington, D.C. 20503

December 11, 1999

Dear Bob,

Thanks for being so helpful in facilitating the manufacturing jobs meetings we have held over the last several months.

Please find attached my notes on the tax questions. I hope this will be of use to you in preparing your statement to the NEC and the Manufacturing Committee.

Some final thoughts. I know this is the budget season and it becomes all too easy to see everything through the lens of the budget. However, though we would be glad of additional budget allocations that supported manufacturing jobs, I know that folks over here are looking for a much more decisive statement of policy change.

The issues we discussed break down into (i) budget items, (ii) policy enforcement items, and (iii) legislative items. An express public commitment on the part of the administration to change trade enforcement policy by taking the "discretion" out of the process would go over well. People here think that countries get away with trade violations because there is always some political expediency that warrants an exception. To use economists' language, this is an instance where "rules dominate discretion."

Similarly, on the legislative items, an express public commitment to seek to get Congress to legislate changes as appropriate would also go over very well.

With regard to yesterday's meeting:

(1) A training tax credit modeled on the R&D credit would be well received. But we must ensure it goes to non-managerial and production workers who are all too often ignored by firms. Also, an R&D styled credit would only cover incumbent workers. We need to give more access to training for those facing job loss which is an ever increasing occurrence in today's rapidly changing economy. However, in doing this, we must ensure that we do not establish a scheme that just provides educational subsidies to the well-off and which undermines the educational budget.

(2) With regard to international labor standards, an affirmative system that rewards good behavior is clearly doable. But enforcement is key, and it must not suffer from existing discretionary enforcement flaws - otherwise we end up giving away something for nothing. Such a rewards based system can become a central part of our bilateral trade diplomacy. It shows that we are not protectionist, and it gives an incentive for our trading allies to buy on to labor standards. Win - win!

In this connection, we could also beef up the foreign aid budget making some of the funds contingent on countries abiding by labor standards. Again, this would fit with the administration's articulated policy, but once again enforcement is key.

(3) Finally, on the manufacturing capital access question, I know we made little headway. However, a commissioned study to look into the question would be very helpful.

Again, thanks for your efforts.

Sincerely,

Tom

Thomas I. Palley
Assistant Director of Public Policy

cc: Martin Baily, Chairman, Council of Economic Advisers.

# TAXES AND MANUFACTURING EMPLOYMENT

(1) **Core problems** - international tax law can provide an incentive to move jobs overseas.
- tax laws reduce payments to the Treasury, shrink revenues, and shift tax burdens.

(2) **Fundamental principle of tax policy** should be that tax system is neutral regarding allocation of jobs, and taxes should be paid on profits where earned.

(3) **Repeal of foreign tax credit and replace with foreign tax deduction.** Foreign taxes paid should be treated on the same basis as all non-Federal taxes paid (i.e. state taxes).

**In absence of such repeal, much else that can be done:**

(4) **Repeal of foreign tax deferral**

- corporations only have to pay taxes on foreign earned profits when remitted back to U.S.

- Amounts to a tax subsidy to grow business overseas. If foreign business is expanding and needs capital, then firms have an incentive to reinvest profits in that business and not remit. What would have been paid in profit taxes becomes an interest free loan to grow the business.

- This gives firms an incentive to grow production facilities offshore rather than at home where they would have to pay profit taxes as and when earned.

- Moreover, even when business does pay taxes on foreign profits, it pays on the basis of "dividend" remittances to the U.S. parent, and not on actual total profits.

(5) **Restricted use of foreign tax credits.**

Under current arrangements firms can use foreign credits earned in one country to offset taxes due on repatriated profits earned in foreign tax havens which have low/no taxes.

Foreign tax credits should only be offsettable against profits earned in the country where the tax credit was granted.

**Both items (4) and (5) were part of Senator Dorgan's "American Jobs and Manufacturing Preservation Act", 1996, s1355.**

(6) **Maximum foreign tax credit** = U.S. tax rate of 35%. If companies want to locate plants in countries with higher tax rates, the U.S. tax system should not subsidize them.

**(7) Profit allocation rules.** Transfer pricing abuses are rife. They enable companies to allocate profits across countries by appropriate choice of "transfer prices," and thereby avoid paying profit taxes. The same holds for "allocation rules" regarding allocation of over-head and R&D expenses which allow companies to ensure that they earn zero U.S. profits.

Replace the existing system of arms-length transfer pricing with that used to allocate profits for purposes of U.S. State corporate income taxes. This is based on an "asset - sales" mix formula.

**(8) International consistency in reporting of legal status**

There should be consistency of legal status reporting across tax jurisdictions. Currently, companies can report that a facility is a "branch" to one tax authority and is a "subsidiary" to another tax authority. By so doing they can avoid paying profit taxes.

e.g. U.S. subsidiary in Germany borrows from subsidiary in Liechtenstein (tax haven country) so that interest is tax deductible in Germany. No income tax is paid in Liechtenstein. At the same time, the Liechtenstein operation is reported to the U.S. authority as a branch of the German operation so that its earnings don't exist for U.S. tax purposes.

**(9) Address the question of state level tax competition.** This is creating Incentives to move jobs to low tax states, undermine state budgets, undermine union jobs. We should use Federal laws to stop such competition.

**(10) Establish a Commission of Inquiry into how the tax system and tax treaties are impacting investment location decisions.**

2nd floor conf rooms
staff meet in lobby

# Bureau of Economic Analysis

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1441 L Street, NW, Room M-100
Washington, DC 20005

**AFL-CIO MEETING – Friday, December 10, 1999**

**Room 324 OEOB**

**Attendance:**

**Administration**

**Martin Baily, CEA**
**Robert Lawrence, CEA**
**Kathryn Shaw, CEA**
**Audrey Choi, CEA**
**Karen Tramontano, WH**
**Robert Shapiro, Commerce**
**Jonathan Orszag, Commerce**
**Andrew Samet, Labor**
**Jorge Perez-Lopez, Labor**
**Robert Cumby, Treasury**
**William Samuels, Labor**
**Harry Holzer, Labor**
**Edward Montgomery, Labor**
**Tom Kalil, NEC**
**Dorothy Robyn, NEC**
**Michael Daum, NEC**
**Rick Samens, NEC**
**Ian Bowles,CEQ/NSC**

Sue USTR should be invited

**AFL-CIO**

**David A. Smith**
**Thea M. Lee**
**Thomas I. Palley**
**Mark Levinson, UNITE**
**Robert E. Lucore, Teamsters**
**Steve Beckman, IGC** auto
**Cary E. Burnnell, USWA**
**Owen Herrnstadt, IAM**

# Increasing the Access of Manufacturing Firms to Capital

The U.S. manufacturing sector requires enormous amounts of capital to remain competitive with foreign producers. Mid-size manufacturing firms report that it is increasingly difficult to raise capital in the debt and equity markets. Given our agreement that the survival and growth of such firms are vital for the overall economy, the government should provide these firms with access to needed capital.

Investors today favor technology firms, attracted by their "sex appeal" and high growth potential. Regardless of whether this flow of capital to the Internet and high tech sector represents "over-exuberance" or an efficient allocation of resources, it makes capital less available to manufacturing firms.

In 1989, the average P/E ratio for mid-sized manufacturing firms was 10.8 compared to an average of 11.8 for the S&P 500 as a whole. In the last ten years, the average P/E ratio for the S&P 500 has increased to 23.0, while the P/E ratio for the mid-size manufacturer has risen to just 12.8. This wide discrepancy in P/E ratios means that these firms are effectively shutout of the equity market, for the purpose of raising new badly needed capital.

Manufacturer's access to the debt market has similarly declined. The value of manufacturing debt issues declined from 20.1% in 1985 to only 8.4% of the total market in 1998. Debt issues by mid-size manufacturing firms (those with annual revenue of $100 million to $2.5 billion) declined as a share of the market from 12.7% to 4.5%.

The capital needs of the manufacturing sector are critical since, despite the enthusiasm of investors for the computer and software sector, the manufacturing sector employs roughly ten times the number of workers employed by firms in the software industry. Without greater access to capital, manufacturing firms will be unable to make the investments necessary for continued productivity improvements, suffer job losses due to import competition and be unable to take advantage of export opportunities.

There are a number of possible approaches for addressing this "capital gap."

The Emergency Steel Loan Guarantee Program provides a model; however, the key issue is to establish that access to capital to these firms is both vital and constrained and that public policy objectives would therefore be met by providing such access.

# A Tour of BEA's Web Site

THIS REPORT BRIEFLY describes the statistical and other information currently available on BEA's Web site at <www.bea.doc.gov>. The BEA Web site was launched in March 1995 to take advantage of a new medium that would provide users with general information about the Bureau's work. Over time, the amount and variety of information that is available has grown exponentially in response to customer use of the Web site for instant access to BEA's estimates and methodologies. BEA is continually updating and improving the site in order to facilitate access to its information and to incorporate technological advances in Web site management. We welcome comments from users about our Web site; see the entry "Feedback" on page 25.

Below is BEA's home page, the gateway to a wealth of statistical information on the U.S. economy. Clicking on one of the highlighted items will take the user to more specific information, as described in the following sections.

## Summary Information

Overview of the U.S. economy provides a snapshot of BEA's primary estimates for recent quarters. It includes series from the national, international, and regional programs on production, purchases, prices, personal income, government finances, inventories, and balance of payments.

**BEA news releases** accesses the latest updates of key national, regional, and international statistics. For the updates of gross domestic product (GDP), personal income, and U.S. international transactions, summaries of the news releases are posted within minutes of the official time of release, and the entire release is posted a few hours later. For the updates of other estimates, the releases are posted as soon after the release time as practicable. A schedule of BEA news releases for 1999 can be accessed by clicking on "1999" at the top of the page.

U.S. DEPARTMENT OF COMMERCE

BEA

BUREAU OF ECONOMIC ANALYSIS

# Bureau of Economic Analysis

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**Overview of the U.S. economy**

**BEA news releases**

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| Our **Catalog of products** gives you another way to find and download data files. | Descriptions of the **methodologies** used to prepare national, regional, and international estimates are available here. |

SURVEY OF CURRENT BUSINESS and other BEA publications accesses articles, statistical presentations, and other material from BEA's monthly journal. For each issue, a table of contents is provided that links to the individual SURVEY items. The entire contents of the SURVEY is posted about the middle of the month in PDF, and highlighted items are also posted in HTML format. (The availability of the SURVEY is announced each month on the "What's new" page; see the entry on page 25.)

Catalog of Products accesses descriptions of, and order information for, products that are sold directly by BEA (CD-ROM's, diskettes, and printouts) and publications that are sold through the U.S. Government Printing Office. In addition, each listing of a diskette contains a link that enables users to download a compressed file that contains the contents of that diskette for free.

Descriptions of methodologies accesses information on the sources and methods used to prepare BEA's national, regional, and international estimates. This information consists of SURVEY articles, of previously published methodology papers, and of text from major BEA publications.

## National, International, and Regional Statistics

The comprehensive economic information that is prepared by BEA's national, international, and regional programs can be accessed through links to their "data," "articles," and other material. (In addition, detailed estimates from these programs are available as

### Dissemination of BEA Information

The economic information prepared by BEA is available in a variety of media. BEA's current national, regional, and international estimates are usually first presented in news releases, which are available to the public on the BEA and the STAT-USA Web sites, on recorded telephone messages, and in printed *BEA Reports*.

More detailed estimates, descriptions of methodologies, and analyses are presented in BEA's monthly journal, SURVEY OF CURRENT BUSINESS, which is available on the Web sites and on CD-ROM, as well as in printed form. Additional detailed estimates and methodologies are presented in statistical volumes, on the Web sites, on diskettes, or on CD-ROM's.

More information about BEA's statistical products is available in the "Catalog of Products"; see the entry on this page.

### Finding Key Estimates

The following is a step-by-step guide to locating some of the most frequently requested estimates on the BEA Web site.

• *Real gross domestic product (GDP).* For percent changes in real GDP for recent quarters:

Click on "GDP and related data"
Look in the section "Summary of latest NIPA estimates"
Click on "Tables (HTML)" immediately to the right of "4 tables"
Look under "Table 1"
Click either "Annual and Quarterly" or "Quarterly"

For historical estimates:

Click on "GDP and related data"
Look in the section "Time series estimates"
Click on "HTML" immediately to the right of "4 tables"
Click on "table 2A"

• *Prices of gross domestic purchases and GDP.* For recent quarterly percent changes in the price indexes for gross domestic purchases and for GDP:

Click on "GDP and related data"
Look in the section "Summary of latest NIPA estimates"
Click on "Tables (HTML)" immediately to the right of "4 tables"
Look under "Table 4"
Click either "Annual and Quarterly" or "Quarterly"

For historical estimates:

Click on "GDP and related data"
Look under "Time series estimates"
Click on "HTML" immediately to the right of "4 tables"
Click on "Table 3"

• *Personal income, consumption expenditures, and saving.* For recent monthly estimates:

Click on "BEA news releases"
Click on the most recent release for "Personal income"

For historical annual and quarterly estimates:

Click on "GDP and related data"
Look under "Summary of latest NIPA estimates"
Click on "Tables (HTML)" immediately to the right of "4 tables"
Look under "Table 4"
Click either "Annual and Quarterly" or "Quarterly"

• *Gross product by industry.*

Click on "Industry and wealth data"
Look under "Gross domestic product by industry"
Click on the series desired

• *Stocks of privately owned and government-owned assets.*

Click on "Industry and wealth data"
Look under "Tangible wealth"
Click on "ASCII" immediately to the right of "Zipped data files"
Save the file to your hard disk
Execute the file to "unzip" it

• *Gross state product.*

Look under "Regional"
Click on "Data"
Look under "Gross state product"
Click on the series desired

• *Balance on U.S. current account.*

Look under "International"
Click on "Data"
Look under "Balance of payments"
Click on "Table" to the right of "Summary table from the latest international transactions press release"

downloadable files through BEA's "Catalog of Products"; see the entry on the previous page.)

*National*

**GDP and related data** accesses recent summary estimates, more comprehensive estimates, and historical time series from the national income and product accounts (NIPA's). For example, the most recent set of "Selected NIPA Tables" is provided in text, spreadsheet, PDF, and HTML formats. The entire historical time series for GDP and its major components is also provided in spreadsheet format; look under "Time-series estimates."

**Articles** accesses the principal articles on the national accounts estimates that have appeared in the SURVEY or other BEA publications. Entries include "A Guide to the NIPA's," "BEA's Chain Indexes, Time Series, and Measures of Long-Term Economic Growth," "U.S. Travel and Tourism Satellite Accounts for 1992," and "Benchmark Input-Output Accounts for the U.S. Economy, 1992."

**Industry and wealth data** accesses comprehensive current and historical data on gross product by industry and on fixed reproducible tangible wealth in the United States.

*International*

**Data** accesses the latest tables of balance of payments data and related information that were published in the SURVEY. It also includes detailed data on U.S. direct investment abroad and on foreign direct investment in the United States. In addition, there is a link to the "IID Product Guide," which contains a comprehensive list of the international investment products and other information about the international investment program.

**Articles** accesses the principal articles on international transactions and on international investment that have appeared in the SURVEY or other BEA publications. Entries include "U.S. International Transactions, Revised Estimates for 1974–96," "An Ownership-Based Disaggregation of the U.S. Current Account, 1982–93," "Characteristics of Foreign-Owned U.S. Manufacturing Establishments," and "A Guide to BEA Statistics on U.S. Multinational Companies."

**Survey forms** accesses the instruction booklets and forms for each of BEA's surveys of foreign direct investment in the United States, of U.S. direct investment abroad, and of U.S. international services transactions. The user can download these materials along with information about the reporting requirements and the classifications used for the survey.

*Regional*

**Data** accesses summary and detailed estimates of gross state product, of State personal income and employment, and of local area personal income and per capita personal income. The data can also be accessed for each State by clicking on a map.

**Articles** accesses the principal articles on the regional accounts estimates that have appeared in the SURVEY or other BEA publications. Entries include "Manufacturing Earnings in BEA Component Economic Areas, 1996," "Gross State Product by Industry, 1977–96," "Comprehensive Revision of State Personal Income," and "Regional Multipliers: A User Handbook for the Regional Input-Output Modeling System (RIMS II), Third Edition."

**Other products** accesses descriptions of the three regional CD-ROM products and the geographic definitions of metropolitan statistical areas and of BEA economic areas.

## Other Highlights

**BEA's mission** accesses a summary description of BEA's role in the Federal statistical system and a list of the senior managers at BEA. It provides links to key documentation, such as BEA's proposed plan of work for fiscal year 1999 and BEA's strategic plan for maintaining and improving the Nation's economic accounts.

### STAT-USA's Web Site

BEA also makes a broad range of its economic information available on the Web site of the Commerce Department's STAT-USA at <www.stat-usa.gov>. In particular, BEA's news releases on gross domestic product and corporate profits, personal income and outlays, and U.S. international transactions are posted in their entirety on the STAT-USA site at, or minutes after, the official time of release. For information about subscribing to STAT-USA's Internet services, call 202–482–1986 or visit their Web site.

### File Formats

Most of the textual information on BEA's Web site is available in PDF and HTML formats. Files in PDF (portable document format) retain the look and feel of published documents and when printed, can duplicate the appearance of those documents; however, special software, the free Adobe Acrobat Reader, is required to read PDF files. Files in HTML (hypertext markup language) do not require additional software; however, they may not look the same as the published documents.

Much of BEA's data is available as self-extracting compressed files in spreadsheet (generally Lotus) format or in plain text (ASCII) format. Windows users need no additional software to "uncompress" these files; Macintosh users may need an inexpensive utility program for this purpose.

**Employment** accesses a listing of current job vacancies at BEA and provides links to additional information about those positions and how to apply for them.

**Phone numbers** accesses a list of BEA telephone contacts that includes the names and numbers of individual subject matter specialists.

**Feedback** provides an easy way for users to send questions, suggestions, or comments directly to BEA's webmaster.

**What's new** provides a listing of presentational changes, of new and updated postings of data, and of other alterations that have recently been made to the BEA Web site.

**Tips on using our site** accesses specific information about the BEA site, including information on using the various types of files in which information is provided (see the box "File Formats" on the previous page).

①

Meeting w/ AFL-CIO.                                        People →

- Gore - if things have a budget cost - need to get in w/in the next 72 hours.

- Sweeney
  Appreciate meeting + continuing dialog -
  Manu jobs continue to decline since last meeting.

- Martin's Overview -
  Process started before me - Robert out -
  We have issues of bipartisan importance -
  agreement - on long run trends
    - productivity growth ↑ manu, ↓ emp.
    - Asian crisis - very clear in the data.
    - reasons for importance of manu.
      - major source of R+D, productivity, high wage jobs for those who might not get them in other contexts.
  Eight areas (we didn't do labor law reform in US.) / problems
    1) Safeguards - swift relief under section 201
      scope of industry, hard for small firms to get info / legal costs
      standard of causation -
      Need for adjustment
      surge NAFTA only ~~to~~ raise tariffs to previous levels.
    2) Offsets - as aerospace - to make a sale overseas -
      agree to purchase from suppliers abroad
      Some of these "performance requirements" are prohibited under WTO.

Mr. Beeer -
Tramontano
D. Robyn -
Ed
Dr. Shaurs (next to Ed)

David Smith.
Levinson -
Mr. Becher - Steel
Sweeney - AFL CIO

Mr. ~~Kah~~ Kalib.

3.) taxes – a) international tax law may ~~provide~~ provide incentives to move overseas.
tax should be neutral on job allocation
– repeal foreign tax credit + replace w/ foreign tax deduction.
b) Co. can defer payments on it till pay in US.
– gives tax break to co. because don't pay when earned.
tax code –

4) Manu. short changed in cap. mkt – in pieces.
higher cost of cap. – does it need special cap mkt provision
ex. of emergency steel guarantee program.

5) Enforcement – provisions not enforced.
Section 301, GSP, CBI Africa.
Most countries have domestic labor rights on the books, but don't enforce.
countries need to abide by own laws.
loopholes in our laws – country may violate standard, but we don't impose sanctions if tell them to try harder.
"good intentions"

6) Environmental costs – not huge – 1% of cost, but impact much greater in some industries.
Should there be countervailing duties in ind. where they exist
under US trade law, show domestic producer injured.
7) training – Labor Dept + useful interchange on
started in diff point – move together – training not funded but mandated.
There was a view that tax credit not good
Too little resources overall for blue collar

Devolution of ~~std~~ training to state - is a national issue.
WARN is not working well.
Any worker who suffered job loss needs a broad range of services.
(Some sense it should be for all workers - generous for those hurt)

DOL ideas - Ed can say more.
- Tax credits - targetted to
- marginal training -

Howard Samuels add? better law
- 201 and offsets - both needs to strengthen existing law & less discretion, more automatic
- more info.

more monies -
- capital question - R+D, Fed R+D

Gene - where do we go from here?
- trade laws later - trade compliance now -
- H1B fees are funding
- NSF educ. training career in Congress - advanced tech educ program
- universality - passion for me - trade too specific
  not contingent on why lost job.
  (ex of Head Start lettery 1m - set a goal - a path and increments
  in one stop counselling.
[Becker - EPA fight, Byrd lost jobs in West Vir. due to Clean Air Act - get 5 years full salary - educ. opp. - Lost by one vote in Senate
tax credits don't appeal - people don't have jobs) so is appealing.

· Community Adj. w/ Robyn — Fed assistance (as in base closings)
· Export promotion,
· Trade compliance — a specific deficiency
· Cap. side — Treasury was there —

New Mkts — general theme in positive way —

George Becker — Bird bill — 5 years of income — industry won't return — need to train.
- Wld sign. view — constituents feel
- Deficit Review Commission he was on it
  - who sets the trade policy in U.S.
  USTR says we have 300 agreements
  2-3 weeks ago GE article — they are forcing suppliers to relocate in Mexico
  ("that's not trade policy" — that's de-industrializing U.S.)
  (glove factory — shut down — kept name value)
  For every major employer job support 3-4 jobs in community, Who speaks for these people.
- Only rich can process dumping cases — no one speaks for these companies.
  (ex: wire rod)
  Arlen Specter bill — employee rep (not union) file for injunctive relief.
  — advancing a bill.

- Offsets are a form of extortion (like bribery)
- Shortage of capital — Canadian labor movement — got pre tax investment for workers (like a 401K — for companies + workers too small
  largest single source of private investing capital
  Consider in our budget
- Mexico — enforcing the laws — said they do have environmental laws, but will not be enforced — we push on Intel Property, R&D,

- Steel surges in imports – we can really effectively – but it never goes back to original position
  1974 13% import penetration to 1999 – 26%
  – was 23% before its last spike
  I don't have a solution for this
  – but need to have a
- Bud bill – families new start program but can't sustain income to

Prendent Baker + Telecom

What works dislocated worker – if apply to UI must be available for work – so can't get full time training – always an issue.
Manu / Telecom
Cisco does no manu in the U.S. – 10,000 workers here
Lucent – 40,000 employees – same revenues – do it here.
Is there an advantage to customers to say they are U.S. based.
Western Elec. – had 200,000 today 40,000 w/ same production.
Offsets – ATT Egypt – new factory – walked away but Siemens entered – examples
So what can govn. do? Tilt Lucent to stay here? They are meeting all their growth targets, but could earn more.
Becker – do we want manu?
Prendent + V.P. care about it, big. not see issue – What to do?

Steve L – UAW
Other countries use process that we don't – offsets.

Secretary Herman has worked on this – Levi Strauss closing – they did...
~~We had in budget proposal~~ – universal effect – blue jean trends or trade guy is out of job either way.
argument that plant closes down – causal chain for him, but what about sandwich seller outside ?
Bird issue – pass an environmental law + look at consequences –

Klingfelter – at left end
What are the benchmarks for level of manu. before international security is an issue.

Mariter – manu. is going well – they are doing design + selling here – blue collar going down – but # jobs did rise till 1998. trade issue.

David Smith in the midst of way
- Huffy bicycle might not have gone to Mexico if Mex. had enforced labor laws.
- what are pieces of indus. policy –

Enforcement, training,
how would they affect Huffy, Lucent.

Gene – offset issue – made some progress –
complicated – worth studying – a form of bribery w/ the state doing it.

Becker – where do we go from here ?

In next 48 hours meet as staff and + go through inventory
As leave here, send notes –
Some places aren't budget items
– ~~Se~~ secondary workers
–

Becker – we suffer from trade, but we are talking about deindustrializing
Have tax policy to
every employer will feel the
president can take position – this is not trade policy – can use taxes
then U.S. has burden to train people –

• Martin we are trying to bring the process to closure and feed into Gene's work – send to cureers and to NEC discussion.

Gene
Our goal is not to wrap up our process.
Budget is way of getting tangible things done.
– how to bring Manu Task Force (NEC) & CEA together. –
– need to inventory issues w/ budget aspects –
– use staff group to put these on the table.

– Share outcome w/ group.

Set up agenda for Jan / Feb.
– some may be CEA will do a study –
– what is being studied & debated –

David Beier – what is going on w/ ~~tax~~ training –
Sweeney want to talk it over
Gene – tax cut to companies – gets very messy to implement ] IRS gestapo
baseline, what counts,
So NEC wants to put money in hands of individual.
Holy Grail – always searching for it.

(8)

Gene.

Hope, Life Long Learning - tax credits to individuals in 1996

Conc.

- We finish our report and circulate it to right places.
- We keep meeting in Jan/Feb.
- Gene takes issues w/ cause to consider in budget

AFL-CIO meeting
12.10.99

Staff

1

• How to combine these points
ex: how to do training and for all and individual counseling.
• How would you rank these?

(Get "Summary of Hard Policy Options for FY 2001 Budget") from Robert

Training

Never adequate resources committed -
programs never substantial - eligibility restricted - too little progress.
20th Century Fund - 2.5% of GDP in US is lowest

- Not big in tax incentives for training - would prefer to see
- Governance . .

Prefer tripartite - would like to expand.
Service may be minimal - KIOSK in a mall and push a button and then they get counted.

If harmed by Federal policy (defense downsizing, environment, trade) then need to be
Building trades - UAW - these works best

David Smith - training for incumbent workers -
- front line (30%) vs managers (70%) private
- don't have to prove that you ended up on the street due to trade

Policy -
Better training for all should bring people on board to embrace change to new economy.

Harry -

- Requested 11.6 B this year
  11.2 got.
  even in bad times.

- Pushed for universal in budget
  WIA has moved in that direction -
- Info - yes more on it.
  Americans....
  Local area average stats

- Requested 368 m for universal exp
  - all on dislocated
  - zero on reemployment
  - 65 m got 30 + offer

Constraints severe but push against them nonetheless.

Training
- always high level; was
- Clinton has done all but this

- Tax credit
- Grants to state
- Regional skill

- Tax credits employers – in a world of scarce resources, don't leave their pockets
  / small 250; non managerial; accredited providers
  Target
  ( don't label everything training

- States all have incumbent (National Governors Assoc.)
  (Michigan, TX, CA
  70% goes to manu naturally
  very positively evaluated [ new training not windfall
  higher retention
  higher productivity ] $600 m (125 m is only CA)

- Regional skill partnerships alliances – fill gaps.

(all on incumbent)
We differ on some. / WIRN and rapid response
Share concerns about WIA and more to states
– but want less stigma, employer buy in at state + local
Don't want to impose new mandates on employers (ex. we never required that employers list all – but we are trying to make it easier).

Want workers to pay when they are middle / upper income

Robert – what is your response to these 3?

Bob – tax credit makes us uneasy – could do a lot to try to get new money

Harry
We have 3 B. out for some populations
Youth Opp Grants
Individual tax credits - ~~for~~ no income - bad.

Karen
What's wrong w/ tax credit: a)
b) 70 / 30

Robert - R+D tax credit / startups, etc, magnet
[ R+D tax credit - need a sustained policy -
~~temp.~~ credits

Section 127 - when employer provides training it is not considered income.

Steve - ~~$~~ no permanence in training -
Universal Reemployment Initiative -
resources there
(don't call it entitlement)
(

David Smith - some very rich partnerships at regional level -
- since people are so mobile - regional seems strange.

H-1 B - skilled workers -
System doesn't match workers well

Trucking - companies shut down - yet others are needing workers.
Relocation support -

Who was the guy who just left?

Cary Environmental – Cary Burnell

We spend a lot on on compliance.
Steel 1994 – $1 ½ B ⇒ $15 / ton.
Martin – what fraction of imports come from countries w/ low environ. regs.
Ans: Don't know – coke example.
They distort prices & shift pollution abroad.

Propose regulatory environ. duties.
problems: hard to measure, enforce, WTO / trade laws, undue restriction of imports.
But sends a message to U.S producers + other countries.

[illegible] CEQ / NSC –
– binding limits for fishing fleets – subsidy [illegible]
they are over subsidised.
– shrimp / turtles – WTO
– are working w/ China, etc. USDA
Trying to build environmental institutions abroad – trade policy environment

Cary –
– problems of overcapacity of steel
– glut of aluminum from Russia
Robert – WTO is violated by this.
– is this local or national pollution
JEL survey summarizes studies on environment.

Martin – did for fat – Europe could say they won't let in our agriculture

Jan – have had some
– but sovereign nat. resources not much success.
World Bank has
Congress put restrictions on the bank.
Fisheries good ex.

Steve
Labor Clauses / Enforcement in Trade Agreements.
Negotiations result in nothing to enforce – trading partners don't have to change.
Market opening agreements –
Steve – for 20 years w/ Japan have signed annual agreement that are opening ~~C~~ Cell market.
Fuji / Kodak – WTO – industrial structure, function of markets is at odds w/ our textbook.
So our negotiators are stymied because there are no rules on market structure rather than barriers –
Abroad have close relations bet companies....
So all too often they are complying.
Need to change approach of our negotiations
Companies know about this – we don't.
Ex: GM agrees w/ China to build a plant there – they won't report MOU trade agreement violation because they are beneficiaries.
No history of compliance w/ China agreements
China not a free / open mkt – hard to change so
Clinton doesn't have a performance standard or results to assess this.
So if we can't change their behavior, we should change ours.

Need criteria to judge outcomes.
Expand purview of

Palley - we agreed manu is special
 mkts can't price this benefit
Martin - externality is what?
 wages, productivity spillovers -

Robert would prefer to ~~the~~ target the externality.

Where is mkt failure in financial mkt.?

Larry - Steel loan guarantees have a targeting effect
 - use of can't access capital elsewhere
 - was a steel guarantee program -
 (there were a lot of defaults in the guaranteed loans)

VRA - steel had to reinvest in steel
Steel unions required this in negotiations.

Could do this like training funds to encourage investment

Changes in banking system
 - small loans may not be on radar screen of big banks

Martin - Change in cap mkts -
 not loans but issuing debt.

⇒ Steel wants a study on manu. sector -
 Was studies on small bus sector.
New Markets Initiative - tax incentives for industry that will invest in a community

8

Enforcement of labor clauses in trade agreements.

Mark - strengthen rights in existing legislation -
- see handout.

Employment laws on books would meet ILO labor rights -
but these are ignored

2) legal if they are "taking steps"
Guatemala, etc ~~[illegible]~~

Q: is customs not got resources?

⇒
1) Need a set of rules
2) Need evaluation of other countries
3)

Enormous discretion in enforcement.
No appeal now - (that's why it is discretion)

Many people involved but USTR has the lead on this.
(State Dep does the reviews)

Many countries have been living w/ these.
Not pushing for the entire panoply of US labor laws ((min wage)

Capital Issues

Cory ~~Bur~~ Burnell - see statement

Robert - Steel had large flows before Asian crisis
Steel capacity now 80-90%, low levels of utilization
- is it structural or cyclical.

Ans. - it is not uniform by
sector or size - major manuf
gets money - mid-sized dont.

3:00 Friday. Union meeting.

Audrey notes?

Karen T. - Yellen to convene economists discussion w/ labor on worries & suggestion -

3 meetings.

meetings 1. e What is special about manu? Problems, benefits?

1st meeting (job losses....)

2. Special about manu -

wages

prod. gains.

harmed by changes - adjustments

There are other industries that have had all these affects

3. Agenda - agreed on trends, challenges, benefits. So what?

Trade policy - special considerations

Terms of trade - $ lever

~~Intern.~~ worker standard

Environmental "

} economists rely possible policy

Manu. Task Force chaired by NEC - Sperling.

interagency working group -

Meetings

1) venting / ugly

Tom Palley economist at AFLCIO has requested more

Robert has talked to Karen Talbot this.

Chad given. pre-meet before all past meetings.

Karolyn... Treasury

Harry

What is meeting now - AFLCIO and CEA?? Robert has been to all of them.

AFLCIO - Andy notes

• Off the record, can't speak for admin, brainstorm, creative, off the record.

Concerns

1. Surges - trade - he has commerce
   Unsatisfied
   Malcolm Lee - did language when considering currency safeguards ...
   he was pretty involved in WTO/China (Surges outrageous.)

2. Offset - Machinists union - Orzak - Bill
   people who know about commission

3. Environment & intern. investment fears
   Bruels from EPA will be there
   JEC study says on average it is not a big problem
   is an issue for some issues
   firms spend 2%. - shouldn't affect location.
   (Some should go - too costly here)

4. Capital bias against manu.
   Orzak - a bank for losers - Robert Bird - got this bill

5. Taxes on location -

Sarbanes —
Marty Greenberg ✓ [illegible]

Graham —
Brian Gross
Deputy Staff Director
(setup)
Dwayne Abernathy
more senior

Senate Banking Committee

Letter fed Cook Dellrei
Sarbanes

Machinists

# AFL CIO Meeting on Nov 19, 1999

Thea AFL CIO
Tom "
Teamsters.
Steve - UAW? ? (grass roots)

~~AF~~

Safeguards -
higher threshold than WTO -

Trade largest single cause of injury or just significant?
adm reluctant to bring case / industry also ⇒ slow progress.
- Is there a more agile process?

Bringing cases - very costly - need Adm. to do more, quicker.

1980 auto - during recession, Commission judged recession more imp
Commission - 3×3 vote nothing out of 201 case.

In steel, huge adjustments already taking place.
- big restructuring - yet still causes of injury.

Nafta has an "import surge" protection - goes back to pre-Nafta } 3 clauses in Nafta
2% tariff on autos. so no effect.
apparel is hemorrhage not surge.
Product definitions so specifically designed. - 110's of products in apparel
that is a problem w/ 201 - under it.

- Remedy is too small w/ Nafta.
- TAA - is available in any case.
- Ex rates also a surge effect -

Are protections for industries in decline or for surge effects? (Robert)

Commerce responses - are these problems / accurate characterizations

NEC -

met twice w/ Steelworkers -

Alan Wolf walked through the English bill.

(meet after Seattle)

put legis. in next session

Don't know if can come to agreement on changes in 201, but firm on WTO.

Outside of steel .. interested

Karen T says taking input from all groups.

admin decides on changes will

bus. community feels we should change - haven't brought them in.

may be some room on moving on - 201

- injury and causation side.

Ken 201 expert Commerce -

Some issues have been in legis proposals -

o What is "proof" or "causation standard"

WTO } slightly diff approaches. { WTO standard is exactly what our law
201 } was until 1974!

o Presidential discretion -

NEC pres should have discretion to balance all factors, though can raise the factors, just can't wait the factors,

This is after Pres. decides to go ahead.

What about initiating the case? Don't want to lose it.

Industry has the info on whether to bring the case (not the admin or the union)

(Industry is not always w/ the union → standard of proof is w/ industry)

- Auto case was w/ Ford —
  but multinational companies are worried about offending
  other countries. → so they don't always have industry support
  if they value domestic mkt less than international
  (this is a big problem in auto)

Commerce?
Types of industries seeking relief usually

But in apparel union & industry are not together
/ textile
(Only steel still together)

- 201 law
- Dumping law — never had union / ind. in opposition
  Biggest case last year was dumping case.

Robert - surges — do we have a policy to deal w/ disruption?
Ken USTR - yes, threat of injury
Can add expedited tariffs.
There are some cases in which President proposed relief.... (Sugar in 70s not recent)

Robert — summary —
- Nafta surge provision — safeguards — tariff r
  (more generic case of injured
  can bring a ~~global~~ general safeguard under 201

Robert –

5 issues – for proposals

1. Costs of bringing case – need aid in it.
2. Standing – who can bring a case
3. Causation standard tougher than WTO. (ex. rates
4. adjustment requirement –
   have already adjusted.
5. product definition – what is the industry that is being injured.

Does it encompass it all?

6. Speed. (like when E volatility)

Surges are not anti-dumping!

⇒ Task force.

Haledon says he has a committee doing this.

FROM: TOM PALLEY, AFL-CIO

## AGENDA FOR CEA MEETING
**Friday, November 19, 3.00 - 5.00pm**

(1) Trade safeguard protection legislation

(2) Offsets

(3) Enforcement of commercial clauses in trade agreements

(4) Training policy

(5) Tax issues.

## PROPOSED AGENDA FOR CEA MEETING
**Tuesday, November 23, 10.00 - 12.00pm**

(1) Unfinished business

(2) Enforcement of labor clauses in trade agreements

(3) Labor standards and domestic labor law reform

(4) Trade related environental issues

(5) Manufacturing access to capital issues.

KS
cpm
(revised)

# AFL-CIO MEETING
Friday, November 19, 1999
3:00 p.m.
Room 324 OEOB

Attendees: Administration

Martin N. Baily, CEA
Robert Z. Lawrence, CEA
Kathryn L. Shaw, CEA
Audrey Choi, CEA
Karon Tramontano, WH
Robert Shapiro, Commerce
Jon Orszag, Commerce
David Wilcox, Treasury
Robert Cumby, Treasury
Harry Grubert, Treasury
William Samuels, Labor
Harry Holzer, Labor
Ed Montgomery, Labor
David Walters, USTR
Rick Samans, NEC
Ian Bowles, CEQ
Bernard Carreau, Commerce
William Reinsch, Commerce
Malcolm Lee, NEC
Ken Frieberg,USTR

AFL-CIO

Thea M. Lee, AFL-CIO
Mark Levinson, UNITE
Robert E. Lucore, Teamsters
Thomas I Palley, AFL-CIO
David A. Smith, AFL-CIO
Ron A. Bloom, USWA
Owen E. Herrnstadt, IAM
Robert Pajkovski, UFCW
Michael E. Conyngham, IBT

CC: RZL
RMB
AC

EXECUTIVE OFFICE OF THE PRESIDENT
COUNCIL OF ECONOMIC ADVISERS
WASHINGTON, D.C. 20502

THE CHAIRMAN

April 19, 1999

Dear David:

Thank you for your letter of March 22, 1999. We at the Council of Economic Advisers very much enjoyed our discussion on manufacturing jobs and trade policy issues.

We also welcome your suggestions for further discussion. We agree that the topics you have mentioned are worthwhile--namely, the nature of manufacturing jobs and the links between the trade deficit and the size of the manufacturing sector and policies to provide safeguards and deal with foreign subsidies--and we would like to discuss these issues further. In addition, we would welcome a presentation of your policy recommendations, both with respect to the U.S. trade policy agenda and with respect to domestic trade adjustment assistance.

We realize it may be difficult to cover all these topics in one session, so perhaps we can arrange two sessions: one to cover these additional empirical issues, and a second to deal with trade policy issues. Please contact my Chief of Staff, Michele Jolin (395-5084) to arrange dates for these follow-up meetings.

Again, we enjoyed our initial discussion and look forward to further exchanges.

Sincerely yours,

Janet Yellen

Janet L. Yellen

Mr. David A. Smith
Director
Public Policy Department
American Federation of Labor
Congress of Industrial Organizations
815 Sixteenth Street, N.W.
Washington, D.C. 20006

815 Sixteenth Street, N.W.
Washington, D.C. 20006
(202) 637-5000
http://www.aflcio.org



Steel

AFL-CIO Dialogue

~~March 22, 1999~~

→ Pre-emptive info on what is really happening in Steel

1. Structure of dialogue?
2. Materials?
→ Happy Holzer — New document

CHINA
→ ~~Principals~~ mtg on WTO w/ AFL-CIO

3. When Schedule Meeting?

Dr. Janet Yellen, Chair
Council of Economic Advisers
Old Executive Office Building
17th and Pennsylvania Avenue, NW
Washington, D.C. 20502

Dear Dr. Yellen:

Thank you for meeting with my colleagues and me last week. We greatly appreciated the opportunity to begin an open exchange on what is happening to manufacturing jobs in our economy.

At the close of the meeting you suggested that we continue this dialogue, and I am writing to you about some areas where we think continued discussion could be productive. I am sure you and others will have additional thoughts and we welcome them.

1. Manufacturing Jobs

A key issue for us is the place of manufacturing jobs in the economy. In particular, we believe that there is something special about manufacturing jobs, and that this special character needs to be taken account of in the design of policy. We believe that manufacturing jobs matter for productivity growth, income distribution, the trade deficit, and the ability of the U.S. economy to follow a full employment growth path. Further research and discussion regarding the significance of manufacturing jobs is much needed. If our claim is right, national policy makers must aim to develop economic policies that take account of manufacturing's special place.

2. The Trade Deficit

A second issue of concern is the trade deficit. This issue is multifaceted. It includes how the trade deficit may affect the number of manufacturing jobs, whether the trade deficit is indicative of national economic failure or whether it is merely the expression of economic agents' spending preferences, whether the trade deficit can continue at current levels indefinitely, or whether it ultimately poses a threat to economic stability and full employment.

Dr. Janet Yellen
March 22, 1999
Page 2

→ what is your agenda?
→ Ask for Positive trade policy agenda

3. Trade Policy

A third issue is trade policy. The global financial crisis has shown that some U.S. manufacturing sectors are vulnerable to adverse employment effects arising from sudden changes in the value of currencies. These employment effects are unrelated to factory floor productivity. At the moment we have little in our policy tool kit to deal with such effects. Financial globalization is not going to go away, and we need to develop new tools for these types of problems.

Another problem is that many countries are pursuing industrial policies that target sectors for development and export. Often this includes subsidizing capacity build up. This too places U.S. manufacturing jobs at risk. Similarly, we need to construct new policies to deal with this.

Once again, I thought our meeting was a useful first step and look forward to your thoughts on how best to continue.

Best wishes,

David A. Smith, Director
Public Policy Department

DAS/kc
opeiu w, afl-cio

election currently underway against another AFSCME union representing state workers, Council 82.

"There's a real strong tide out there," said Quirk. "I think the people in CSEA are beginning to wake up."

CSEA, whose contract expires March 31, was the first of eight state employee unions to reach agreement with the state. Under the tentative agreement, wages would have increased by 2 percent in the first year, 2.5 percent in the second year, 3 percent in the third year, and 3.5 percent in the final year.

In announcing the contract vote, the union said the tentative contract involved no givebacks and protected all health coverage and existing benefits.

Mary Hines, a spokeswoman for the governor's Office of Employee Relations, said the state was disappointed with the vote and will return to the bargaining table as soon as possible.

By Gerald Silverman

*Child Labor*

## Advisory Committee Sets First Meeting; Aims to Improve Enforcement of Trade Laws

An advisory committee created by the Clinton administration and Congress to improve the enforcement of U.S. trade restrictions on imports manufactured with forced or indentured child labor is scheduled to conduct its first formal meeting April 9, the Treasury Department announced March 25.

Treasury Secretary Robert E. Rubin, who announced the organizations to be represented on the Advisory Committee on International Child Labor Enforcement, said enforcement of the ban is a top priority of the department and the U.S. Customs Service, which is charged with enforcing import restrictions.

Sen. Tom Harkin (D-Iowa), the leading proponent of more effective enforcement of trade restrictions, told reporters March 25 that he plans to urge the Senate Finance Committee to adopt new trade legislation making the elimination of child labor a "principle negotiating objective" in trade negotiations.

Harkin cited his dissatisfaction with the enforcement of existing restrictions on products made with child labor as the primary reason for setting up the advisory committee. One of the biggest obstacles to effective enforcement, he said, is identifying which goods passing through customs are made with child labor.

The advisory committee arose out of President Clinton's 1998 commitment in his State of the Union address to make the elimination of child labor a top priority of his administration.

The committee will include representatives of Treasury, Customs, the Departments of Labor, State and Commerce, as well as the National Economic Council, the U.S. Trade Representative, and House and Senate staffs.

The private sector members are Erik O. Autor, vice president and international trade counsel, National Retail Federation; Claude Brown, director of the Office of Corporate Affairs and Strategic Initiatives, International Brotherhood of Teamsters; Douglas Cahn, senior director of human rights programs, Rebok International Ltd.; Terry Collingsworth, secretary-treasurer, Rugmark Foundation-USA; Thomas J. Cove, vice president of government relations, Sporting Goods Manufacturers Association; Linda F. Golodner, president, National Consumers League; Pharis J. Harvey, executive director, International Labor Rights Fund; Robin W. Lanier, senior vice president for industry affairs and trade development, International Mass Retail Association; Lucille J. Laufer, executive director, Oriental Rug Importers Association Inc.; L. Diane Mull, executive director, Association of Farmworker Opportunity Programs; Jeffrey F. Newman, president and executive director, National Child Labor Committee; Elliot J. Schrage, professor, Columbia University Graduate School of Business; Ambassador Sandy Vogelgesang, president, Everest Associates; Steven S. Weiser, partner, Graham & James LLP; and Lisa M. Woll, director, Convention on the Rights of the Child Impact Study.

*International Labor*

## Brazil's Economic Crisis Hampers Mercosur Employment, Says Research Firm

BUENOS AIRES, Argentina—The Mercosur trade group's two largest job markets in Argentina and Brazil are beginning to weaken, feeling the affects of a slowing economy caused by Brazil's currency devaluation in January 1998, according to the Argentine research firm Sociedad de Estudios Laborales and Brazil's government statistic bureau.

Those two countries comprise 90 percent of the job market in the Mercosur trade group, which also includes Uruguay and Paraguay, with Bolivia and Chile as associate members.

The number of workers employed in metropolitan Buenos Aires—home to one-third of the country's 34 million people—fell by 0.8 percent in February compared to January, the Argentine firm said in a report released March 11.

The private sector, which accounts for 40 percent of total jobs, declined by 3.4 percent, or 50,380 jobs in February.

The employment numbers reflect how Brazil's economic woes have hurt demand and overall production in neighboring Argentina. Brazil is Argentina's largest trade partner, consuming one-third of its exports through the Mercosur trade agreement.

February was the fourth straight month in which employment dropped, according to the study. As a whole, employment in the greater Buenos Aires area decreased by 3.5 percent from the same month a year earlier. That is expected to push unemployment higher. The government releases these figures in June and December.

Exporters and importers were among the hardest hit, with employment levels dropping by 1.9 percent. Argentine exports to the Mercosur region fell 21 percent to $471 million in January, while exports to countries of the North American Free Trade Agreement—the United States, Mexico, and Canada—fell 23 percent to $146 million.

Automobile manufacturers have been the most affected, with their exports slashed by nearly half in January and February. Argentina sends more than half of its car production to Brazil. Volkswagen AG, Europe's biggest carmaker, expects to reach an agreement with workers to lay off about 20 percent of its workforce in

April 18, 1999

Michele — I made these changes (per Janet.) S

Dear David:

Thank you for your letter of March 22, 1999. We at the Council of Economic Advisers very much enjoyed our discussion on manufacturing jobs and trade policy issues.

We also welcome your suggestions for further discussion. We agree that the topics you have mentioned are worthwhile--namely, the nature of manufacturing jobs and the links between the trade deficit and the size of the manufacturing sector and policies to provide safeguards and deal with foreign subsidies--and we would like to discuss these issues further. In addition, we would welcome a presentation of your policy recommendations, both with respect to the U.S ~~international negotiations~~ trade policy agenda and with respect to domestic trade adjustment assistance.

We realize it may be difficult to cover all these topics in one session, so perhaps we can arrange two sessions: one to cover these additional empirical issues, and a second to deal with trade policy issues. Please contact my Chief of Staff, Michele Jolin (395-5084) to arrange dates for these follow-up meetings.

Again, we enjoyed our initial discussion and look forward to further exchanges.

Sincerely yours,

Janet L. Yellen

Mr. David A. Smith
Director
Public Policy Department
American Federation of Labor
Congress of Industrial Organizations
815 Sixteenth Street, N.W.
Washington, D.C. 20006

Robert Z. Lawrence
04/12/99 10:37:58 AM

Record Type: Record

To: Michele Jolin/CEA/EOP

cc:

Subject: Re: Dialogue w/ AFL-CIO

Sorry for being tardy. Here are my suggestions:

Dear David:

¶ Thank you for your letter of March 22, 1999. We at the CEA ~~also~~ very much enjoyed our discussion on manufacturing jobs and trade policy issues.

¶ We also welcome your suggestions for further discussion. We agree that the topics you have mentioned are worthwhile -- namely, the nature of manufacturing jobs and the links between the trade deficit and the size of the manufacturing sector and policies to provide safeguards and deal with foreign subsidies -- and we would like to discuss these issues further. In addition, we would welcome a presentation of your policy recommendations, both with respect to international negotations and with respect to domestic trade adjustment assistance.

We realize it may be difficult to cover all these topics in one session ~~and~~ so, perhaps we ~~could think of~~ can arrange two seessons; One to cover these additional empirical issues and a second to deal with trade policy issues.

Please contact my Chief of Staff, Michele Jolin, (395-5084) to ~~set up~~ arrange dates for these follow-up meetings.

¶ Again, we enjoyed our initial ~~these~~ discussion and look forward to further exchanges.

Sincerely Yours,

JLY

Proposed Pre-Meeting for AFL-CIO Group
Re: Trade & Industrial Policy as they Affect Manufacturing

Monday, July 26, 1999 / 3:00 p.m.

| | |
|---|---|
| Janet Yellen | OK |
| Robert Lawrence | OK |
| Karen Tramontano | OK |
| David Walters | OK |
| Lael Brainard | Sharon will let her know but do call Samans |
| Rick Samans | OK |
| | |
| David Beier | Audrey to invite |
| Paul Tuchman (OVP) | Audrey to invite |
| | |
| <u>Treasury</u> | |
| Bob Cumby | Nancy says OK |
| | |
| <u>Commerce</u> | |
| Robert Shapiro | out of town—wants Lee Price to come |
| Lee Price | OK |
| Jon Orszag | OK |
| | |
| <u>Labor</u> | |
| Harry Holzer | Has schedule conflict—secy will be sure he knows about the mtg anyway |
| Ed Montgomery | Has meetings all day, but call Samuel instead |
| Bill Samuel | OK |

C:/work/audrey/aflcio.4

# Meeting w/Administration officials & AFL-CIO representatives
## June 14, 1999 -- 2 to 4 p.m.
## Room 324, OEOB

| Invitee: | Phone | Fax | E-mail | RSVP for 6-14 |
|---|---|---|---|---|
| David Walters, USTR | x53583 | x59668 | lotus notes | ok per Joyce |
| Lael Brainard, NEC | x65353 | x62878 | lotus notes | ok--Pres trip may be problem<br>Will also notify Samans |
| Rick Samans, NEC | x65715 | | | |
| Bob Cumby, Treasury | 622-0572 | 622-2633 | robert.cumby@do.treas.gov | will attend first half |
| Robert Shapiro, Commerce | 482-3727 | 482-0432 | robert.shapiro@doc.gov | ok per Ann (or Vickie) |
| Jon Orszag, Commerce | 482-3520 | 482-4636 | jon.orszag@doc.gov | ok per Sandra |
| Ed Montgomery, Labor | 693-6002 | 693-6143 | edward-montgomery@dol.gov | ok (will also tell Samuels) |
| William Samuels, Labor | 693-6002 | 693-6143 | william-samuels@dol.gov | |
| Harry Holzer, Labor | 693-6004 | 693-6146 | harold-holzer@dol.gov | ok per Jamal (or Pamela) |
| Karen Tramontano, WH | x66278 | x62883 | lotus notes | Poc Carolyn Wu |

# Guidelines for Worker-Centered Training

## Inadequate Resources are the Chief Problem

The U.S. spends a smaller percentage of its GDP on helping workers improve their skills than any of the other developed countries except Japan. Japan is only low because of a strong culture of employer based training. U.S. spends 0.25% of GDP helping workers improve their skills. Germany spends 2%, France 1%.

Because resources are inadequate, eligibility is made too restrictive. Thus only a small percentage of dislocated workers are served. Only a small portion of the disadvantaged are served by welfare-to-work programs. Also, those who do get services often only get minimal service. Eligibility should be much less restrictive and non-descriminatory.

Tax credits for employer training are probably ill advised. Often lead to no new training programs, just shifting around of existing programs. Direct investment by the government in workers is probably better.

## Governance

We are very concerned about the trend toward devolution of authority to the states. We run the risk of having 50 different state systems with little or no accountability at the federal level. We think governing structures work better when they are tripartite, with labor, management and community based organizations. Continuing efforts to privatize the oversight of training programs also concerns us. Again the concern is accountability and misplaced incentives.

## Early Intervention

The WARN system is weak. Earlier warning mechanisms should be set up that trigger rapid response services in states. The notice period should be increased to at least 90 days.

## Assessment and Counseling

Trained counselors in public institutions such as the Employment Service should refer workers to proper training providers. Counseling should not be provided by for-profit institutions or training providers that stand to benefit from steering clients. Peer support and counseling should be integral. A Permanent case manager for each worker should be assigned. Job banks are a tool but not a replacement for counseling. It is very important to provide adequate child care, transportation, and relocation assistance.

## Labor Market Information

The federal government should provide much better labor market information. Workers need much more detailed, accurate, integrated information about job openings, educational alternatives, and skills in demand and industry trends. This information need to be much more accessible and understandable. All employers should be required to list job openings with the Employment Service. Both BLS and Employment Service should receive adequate funding to provide industrial and occupational information and projections at local, state, regional and national levels.

There is also a real need for better research on the training problem. Independent funding for BLS programs to assess the number of mass layoffs and number of dislocated workers should be assured.

**On-the-Job Training**

If employers receive training funds, they should be held accountable. Performance standards should be met. Trainees should be place in good jobs with predetermined wage levels for at least 90 days. Worker/Trainees should be given a role in evaluation of programs.

**Public Service Employment**

Short-term public service jobs should be created for those who can't find private employment. In no way should these jobs be used to displace existing public employees.

**Support**

Workers seeking training need a variety of support mechanisms. Much as the administration has proposed using the unemployment insurance system to support family and medical leave, it should consider an expansion of unemployment benefits to provide income support for dislocated or under-skilled workers who are seeking training. Workers who need training need more than tuition vouchers. They need income support, health insurance, childcare and transportation.

**Some Guiding Principles**

If a worker is harmed by federal policy (trade policy, environmental regulation, defense downsizing, and the like), they should be given adequate training and support to get a similarly good job.

Federal policy should encourage union and worker involvement in design, implementation and evaluation of training programs.

Public Institutions that don't stand to profit and can be held accountable are preferred.

Training programs should incorporate information on workplace rights, including OSHA, FLSA, NLRA, and Civil Rights.

No public training money should be made available to companies that exhibit a pattern of violating labor, equal employment or environmental laws.

Goal should be good jobs that provide for family self-sufficiency and sustainable communities.

# # #

## Summary of Proposed Manufacturing Policy Options for FY 2001 Budget

In August, the President and Vice-President announced the creation of an interagency task force to recommend ways to strengthen the manufacturing sector. The recommendations would consist of budgetary proposals for FY 2001, administrative actions, and proposed legislative changes. The intent is to address issues that cut across all of manufacturing – regardless of the size of the firm or specific industry.

At a meeting of the Manufacturing Task Force, agency representatives were asked to submit their agency's FY 2001 budget proposals that support the task force's goals. Follow-up conversations led to the inclusion of additional proposals not part of any agency's OMB submission. Four broad areas emerged as requiring additional Federal investment. They are: 1) increasing the skills of the manufacturing workforce, 2) increasing manufacturing exports, 3) developing and diffusing technologies to increase productivity, and 4) promoting "green" manufacturing. Below are synopsized versions of agency proposals.

- **Increasing the Skills of the Manufacturing Workforce ($405 million)**

  - DOL would make available to small businesses of 250 or less a marginal tax credit to increase the level of training provided to production workers and front-line supervisors. The tax credit is intended to overcome employers' reluctance to provide training to these employees due to limited financial resources and concerns that the employees would leave shortly after receiving the training. DOL estimates that the total increased investment in training generated by the credit may be in excess of $500 million. ($200 million in new funding). An option is to limit the tax credit to only small manufacturers.

  - DOL would competitively award block grants to States for demonstrating innovative approaches to training and upgrading the skills of non-management incumbent workers at firms where there is a demonstrable risk of a large near-term layoff, company closure, or in other special circumstances. These grants would require similarly sized matches of state and employer money and would be dispersed through existing State and local agencies for on-the-job training. DOL estimates these grants could generate new training for an additional 300,000 – 460,000 workers per year ($100 million in new funding).

  - DOL would increase the number of competitively awarded Regional Skills Partnerships (RSP) grants. In these partnerships, industry, labor, and the local workforce development system would work together to assess the strengths and weaknesses of their workforce and design interventions to fill gaps and better match skills to employer needs within a region. DOL estimates funding 50-100 additional partnerships around the country would generate training infrastructures that could serve areas with anywhere from 6-12 million workers ($100 million in new funding – some RSP grants are funded through H1-B fees).

  - ED and DOL would increase the number of students in secondary schools interested in pursuing careers in manufacturing who meet academic and industry skill standards, and increase the number of students who are interested in pursuing post-secondary education opportunities in disciplines leading to careers in manufacturing. Federal agencies working with leading industry organizations, organized labor, and states would build upon their current initiative to build linkages between secondary school curricula and the skills requirements of manufacturers to provide career pathways for students leading to manufacturing occupations ($5 million increase on a $1.5 million base).

- **Increasing exports ($40 million +)**

  - DOC would develop a series of domestic trade education and Internet-based outreach activities to introduce manufacturing firms to new markets, expose them to opportunities in newly opened economies, and new means for reaching those markets. The Department would also assist smaller manufacturers in becoming "export ready" and create market development strategies for under-represented small and medium size manufacturers. The goal is to increase the number of exporting small and medium-sized manufacturing firms by 50% over the next 5 years ($20 million in new funds).

  - DOC would reduce non-tariff barriers (NTBs) to trade arising from differences in the ways countries create product standards, testing, and certification requirements, by strengthening the U.S. measurements and standards infrastructure. Standards directly affect at least $150 billion in U.S. exports, and serve as barriers to trade for an additional $20 – 40 billion of exports. The goal is to reduce these types of NTBs to trade by 10% per year ($20 million in new funds).

  - EXIM would increase the total project authorizations for working capital financing available to U.S. exporters by reaching out to the so called asset-based lenders who typically finance the inventory and receivables of small- to medium-sized businesses. These non-bank lenders are part of a $200 billion industry that finances inventory and receivables and almost always lends to small- to medium-sized business. EXIM projects the demand for its Working Capital Guarantee Program to grow to $1 billion in FY 2001.

- **Development and diffusion of technologies to increase productivity ($131.5 million)**

  - DOC would accelerate the development of the technology infrastructure needed for supporting reliable, effective, interoperable, and secure solutions for business-to-business electronic commerce, focusing on the requirements of manufacturing supply chains. For example, the lack of just one type of information infrastructure in the automotive industry – standards for exchanging product data electronically between suppliers – imposes an annual cost of approximately $1 billion. Extrapolating to other industries with similarly complex supply chains – aerospace, electronics, construction – suggest a multi-billion dollar drain on the economy as a result of poorly integrated electronic commerce technologies ($28 million in new funding).

  - SBA, DOC, and USDA would accelerate the adoption of electronic commerce by small businesses by developing, distributing, and supporting through their combined extension service networks, a number of electronic commerce "tools" such as an electronic commerce self-assessment kit, an electronic commerce "jumpstart kit", and an electronic commerce adoption roadmap. These materials would be distributed to every small manufacturer in the Nation. As a result of the effort, the productivity of small manufacturers would be increased and potential new business opportunities created both domestically and internationally. The goal is that the number of small manufacturers engaged in business-to-business e-commerce doubles within three years. More broadly, the goal is to have half of all small businesses engaged in e-commerce within 5 years ($100 million in new funding).

- DOD would continue to support programs such as Manufacturing Technology (ManTech) and the Title III Program under the Defense Production Act that maintain a robust and competitive defense industrial base. These programs ensure that the requisite manufacturing, engineering, research and development, and financial capabilities to meet critical defense needs remain available (FY 2000 budget for ManTech is $133 million).

- NSF would support fundamental research that would develop the science-base for enterprise-wide business automation ($2.5 million in new funding).

- DOC would provide seed funding to establish a "convening" organization to facilitate collaborative industry R&D on common future manufacturing infrastructure needs. The collaborative industry R&D would be guided by a technology roadmap recently developed through a two-year public-private partnership ($1 million in new funding).

• **Promoting Green Manufacturing ($39.5 million)**

  - DOE would increase funding to support public-private collaborative energy- and waste-reducing R&D identified in technology roadmaps in energy intensive manufacturing industries such as steel, aluminum, metal casting, glass, chemicals, and petroleum. The industrial sector consumes over 35 percent of total national energy use and energy intensive industries consume over 75 percent of manufacturing industry energy consumption. The additional funding will accelerate the R&D, enabling each industry to reach its energy efficiency goals sooner ($35 increase on a $150 million base).

  - NSF would support fundamental research ultimately leading to the development of cost effective, competitive products and processes that do not harm the environment, use as much recycled material for feedstock as possible, and create no significant waste in terms of energy, material or human resources ($2.5 million in new funding)

  - EPA would increase funding for its Design for the Environment (DfE) industrial outreach program. DfE works directly with manufacturing companies and trade associations to encourage pollution prevention by focusing on front-end innovations through redesign rather than relying on end-of-pipe controls to reduce potential risks to human health and the environment ($2 million increase on a $3.7 million base).

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jm1223

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b(9) Release would disclose geological or geophysical information concerning wells [(b)(9) of the FOIA]

MEMORANDUM FOR DISTRIBUTION LIST

FROM: Tom Kalil, NEC
Dorothy Robyn, NEC
Michael Daum, NEC

SUBJECT: NEC Manufacturing Task Force

The NEC Manufacturing Task Force will hold its next meeting on **Friday, December 10 at 1:30 pm** in Room 231 of the Old Executive Office Building. To RSVP, please send your clearance ~~information to~~ Rachael Goldfarb at 202-456-2801 [redacted] (b)(6) SS OB [001]

Background: Fax: 456-2223

On August 12th President Clinton announced the creation of an interagency manufacturing Task Force. The task force is led by Gene Sperling, and is charged with recommending ways to strengthen the U.S. manufacturing sector.

At the October 1st Task Force meeting, agencies discussed analytical work that they have done on the health of the U.S. manufacturing sector, made suggestions for an overall policy framework, and discussed budgetary and non-budgetary proposals for strengthening the U.S. manufacturing sector. Agency input has been organized along four policy areas. They are worker skills, increasing exports, developing and diffusing technologies to increase productivity, and green manufacturing. A synopsis of agency submissions is attached.

The purpose of the meeting is to discuss the status of the initiative.

**Distribution**

| | |
|---|---|
| Robert Lawrence | CEA |
| Jon Orszag | DOC |
| Ray Kammer | DOC |
| Jeff Bialos | DOD |
| Kenneth Friedman | DOE |
| Harry Holzer | DOL |
| Mort Downey | DOT |
| Patricia McNeil | ED |
| Clyde Robinson | EXIM |
| Randy Lyon | OMB |
| Larry Matlack | OMB |
| Ducan Moore | OSTP |
| Louis Martin-Vega | NSF |
| David Beier | OVP |
| Dan Hill | SBA |
| Len Berman | TRS |
| Gordana Earp | USTR |

**Manufacturing Task Force Invitation List for 1:30 PM Meeting on December 10, 1999**

| Name | Agency | Phone | Fax |
|---|---|---|---|
| Robert Lawrence | CEA | | |
| Jon Orszag | DOC | 482-4127 | 482-3634 |
| Ray Kammer | DOC | 301-975-2000 | 301-869-8972 |
| Jeff Bialos | DOD | 703-697-0051 | 703-695-4277 |
| Kenneth Friedman | DOE | 586-0379 | 586-9234 |
| Harry Holzer | DOL | 693-6004 | 693-6146 |
| Mort Downey | DOT | 366-2222 | 366-3937 |
| Patricia McNeil | ED | 205-5451 | 205-8748 |
| Clyde Robinson | EXIM | 565-3511 | 565-3505 |
| Randy Lyon | OMB | 395-5800 | 395-1157 |
| Larry Matlack | OMB | 395-3262 | 395-1596 |
| Duncan Moore | OSTP | | |
| Louis Martin-Vega | NSF | 703-306-1330 | 703-306-0298 |
| David Beier | OVP | | 456-6231 |
| Len Berman | TRS | 622-0120 | |
| Gordana Earp | USTR | 395-9637 | 395-9674 |

November 1999

**Proposals for Strengthening Labor Rights Provisions in (1) United States trade legislation, and (2) legislation authorizing multilateral trade agreements (NAFTA or future expanded NAFTA or FTAA)**

**Mark Levinson, Director of Policy, UNITE**
**Mark Barenberg, Professor of Law, Columbia University**

**The proposals in this memo are aimed at the following bodies of U.S. trade legislation (1-3) and legislation that ratifies, or authorizes the President to negotiate, new bilateral or multilateral trade agreements (4-6):**

1. **Section 301 of the 1974 Trade Act**
2. **Generalized System of Preferences**
3. **Caribbean Basin and African trade and development legislation**
4. **Revision of NAFTA labor side agreement**
5. **Accession of new member states to the NAFTA labor side agreement**
6. **Transformation of NAFTA into FTAA**

**In the following proposals for revision of U.S. trade legislation and multilateral agreements, the specific language of new legislative or treaty provisions is in *italicized bold type.* Explanations of the proposed provisions are in** regular type.

1. ***"Beneficiary countries under US trade legislation, or member states of multilateral trade regimes, shall not only comply with core international rights, but also (i) fully and effectively enforce existing domestic labor and employment laws, (ii) if necessary, revise such laws in order to meet or exceed core ILO requirements, and (iii) refrain from weakening their domestic labor and employment laws as a means of gaining unfair competitive advantage."***

The first three U.S. laws listed above typically require for eligibility -- or at least list as one among several criteria for eligibility -- a beneficiary country's compliance with core ILO rights. Although such provisions are important gains for workers in both the U.S. and the beneficiary countries, they have a crucial weakness. The problem is that such ILO rights are defined very abstractly in U.S. trade legislation, and the ILO itself affords great flexibility in the country-by-country specification of such rights.

By contrast, almost all countries -- even countries which *in practice* repress or fail to protect worker rights -- have *on the books detailed domestic labor rights and enforcement machinery* that, if actually implemented effectively and impartially, would strongly protect worker organization and bargaining. This proposal therefore has the following virtues:

1. It "simply" obligates countries to abide by their own sovereign enactments. That is, the U.S. trade legislation would not externally impose any new obligations or labor rights on our

trading partners, except in the extraordinary cases when a country's existing laws violate international law as codified in core ILO rights. In such extraordinary cases, any objection that the U.S. is *unilaterally* interfering with the sovereign policies of our trading partners is answered by the fact that the U.S. is merely recognizing the (by definition) *multilateral if not universal* law of nations.

2. "Effective enforcement of existing domestic labor law" is the substantive standard already embodied in the NAFTA side accord on labor. (Note, however, that the proposals below for reforming the monitoring and enforcement procedures in U.S. trade legislation would strengthen the mechanisms for *enforcing* the existing NAFTA side accord on labor.)

3. Because the countries' domestic labor codes are much more specific than the abstract ILO rights, adminstrative actors charged with enforcing the worker rights provisions in trade legislation can more precisely and objectively monitor and evaluate a country's effective enforcement of those standards -- whether those administative actors are USTR officials; ILO teams; NAFTA-type Committees of Experts and Arbitrators; national or international labor organizations; or other newly constructed monitoring Commissions, such as those proposed below.

4. Because the countries' domestic labor codes are adapted to local social and economic conditions, including local labor-relations systems, it is likelier that any new steps taken by potential beneficiary countries to enforce worker rights will follow sensible, practical lines. Local labor inspectorates, labor tribunals, and labor ministries are already at least formally structured to enforce the country's existing code and will at least pay lip service to existing legal standards (even if, in past practice, the enforcement institutions and actions have been weak or duplicitous).

5. Since the proposal simply gives positive incentives for trading partners to implement their own law, the monitoring and evaluation requirements of U.S. trade legislation or multilateral agreements can be embodied in broader programs of "Technical Assistance and Cooperation" or "Assistance in Strengthening Administrative Capacity and the Rule of Law." Indeed, the programs *should* in fact include provision -- by the U.S., ILO, or other bodies -- of training and administrative resources to local labor ministries, inspectorates, and tribunals. The point *is* to build up long-term local capacity to effectively and impartially enforce domestic labor codes. The proposal therefore fits comfortably with President Clinton's recent proposals -- emphasized in his 1999 State of the Union address -- that the United States assist in systematically strengthening the ILO's institutions for enforcing global worker rights.

GSP helping steps to enforce labor rights

**2. Eliminate all discretionary loopholes in the remedial requirements of existing and proposed U.S. trade legislation and NAFTA or FTAA labor side agreements. That is, if the relevant administrative body (e.g. the USTR or a strengthened, region-wide Commission on Labor Cooperation) *"finds that a trading partner has not fully and effectively enforced domestic labor law and core international labor rights, then the trading partner or member state shall automatically disqualify for specified economic benefits."* Such positive incentives or carrots may take the form of reduced tariffs or increased quotas afforded by the trade legislation. Alternatively, the legislation or multilateral agreement could "de-link" such positive incentives for labor-rights enforcement from trade benefits and "re-link" them instead to benefits of other kinds, such as public financial assistance, debt forgiveness, or**

**the like.**

1. Such discretionary loopholes are rampant in existing and proposed trade legislation For example:

- In Section 301 of the Trade Act of 1974, Section 301(a) initially states that the USTR is required to take "mandatory action" when a trading partner violates worker rights provisions contained in trade agreements. But a subsequent provision (Section 301(a)(2)(B)(ii)) grants the USTR discretion not to take remedial action if that trading partner merely signs yet another paper-agreement to enforce worker rights in the future. Further, Section 301(d)(3)(B)(iii) allows the USTR to impose penalties against trading partners that violate core ILO rights (even when there are no worker rights provisions included in any particular trade agreement), but in these cases the USTR's imposition of remedies is explicitly "discretionary." The USTR may refuse to take any enforcement action based simply on the USTR's determination that enforcement is not "appropriate."
- Analogous loopholes are contained in GSP.
- In the NAFTA labor side agreement, the Commission on Labor Cooperation (comprising the Secretaries of Labor of the three member states) has unreviewable discretion to decide whether a dispute goes beyond consultation to a panel of experts or third-party binding arbitration.

2. These loopholes permit the U.S. Executive or the NAFTA Commission to chronically under-enforce or postpone enforcement of the worker rights provisions in trade legislation or agreements, by reason of ideological discretion, bureaucratic inertia, inter-departmental resistance, etc. The loopholes not only contradict the promise of worker rights contained in the trade laws and agreements, but also signal beneficiary countries that the United States' likelihood of deploying effective carrots is weak, wavering, or negotiable.

3. Such discretionary loopholes are even more indefensible when the beneficiary country is required to comply with its own specifically defined labor law, as distinguished from abstractly worded, "externally" defined international norms (i.e. core ILO norms). That is, if the underlying violation of worker rights is clearly defined and clearly evident, there is even less reason for discretionary loopholes that "forgive" repression of worker rights and, more importantly, that weaken the power of the trade legislation or agreement to deter worker rights violations.

***3. "Private interested parties shall have a right of action in federal court to seek enforcement of the USTR's or NAFTA Commission's non-discretionary duty to disqualify a trading partner or member state for economic benefits when the trading partner has failed to effectively and impartially enforce its own labor law and core international labor rights."***

1. This proposal applies a standard mechanism of administrative law to offical decisions by the USTR, acting as an Executive Branch administrative agency to which Congress has delegated express obligations, or by the revised NAFTA Commission to which Congress has delegated multilateral enforcement obligations. That is, aggrieved parties (including, in this instance, U.S. labor unions) are given standing to seek judicial review and rectification when an implementing agency acts outside the bounds of its Congressionally delegated authority.

2. This proposal builds on the previous proposal (Proposal 2 above) and on familiar,

fundamental principles of the "rule of law." If the action of the USTR or NAFTA Commission is non-discretionary and constrained by Congressional mandates -- that is, if Congress requires that the USTR or Commission must deny trade benefits when well-specified worker-rights violations have occurred -- then the traditional capacity and duty of federal courts to review whether the administrative agency has acted lawlessly is appropriately invoked.

3. The traditional mechanism of judicial review is all the more appropriate when the next incremental proposal is adopted -- that is, when a well-developed "adminstrative record" documenting worker rights violations is built into the legislative or multilateral regime.

*4. "A standing Commission on Labor Cooperation (a domestic body within the USTR in the case of trade legislation, a multilateral body in the case of multilateral agreements) shall conduct ongoing monitoring and evaluation of the beneficiary countries' compliance with their obligations to fully and effectively enforce their own labor laws and core ILO rights. The Commission shall issue annual reports summarizing each countries' record of labor law enforcement and issue annual decisions whether the country has or has not complied with these obligations."*

1. The positive incentives for enforcement of labor rights will be much more effective if beneficiary countries or member states know there is a well-staffed, ongoing watchdog to keep a running record of each country's labor-law enforcement efforts.

2. The incentive effect will be greater still if trade partners know that they face an annual determination of their continuing status as beneficiary countries, and an annual risk of losing trade or other economic benefits based on a court-enforceable, non-discretionary application by an expert Commission of well-specified norms of conduct (namely, the detailed norms set out in the countries' own labor codes).

*5. "The Commission on Labor Cooperation shall also issue annual reports summarizing the labor-rights record and issuing a decision about labor-rights compliance or non-compliance of each distinct Export Processing Zone within each beneficiary country or member state."*

1. This provision has the advantage of *creating incentives among individual companies within each Zone to monitor and encourage each others' compliance* with domestic labor laws. That is, each company in a given Export Processing Zone has a stake in maintaining that zone's beneficiary status and, therefore, in policing rogue employers who may otherwise cause all other employers in that Zone to lose valuable trading benefits.

2. This alternative may also place great incentive on local labor inspectors and other officials to effectively enforce labor-law compliance. If a local labor administrator is lax or incompetent, elites controlling the relevant local Zone and its employers stand to suffer great economic loss.

3. Because some countries have not established Export Processing Zones, it may be necessary for the Commission to issue Zone-by-Zone reports in those countries that have established Zones, and country-by-country reports in those countries that have not.

*6. "The officials and staff of the Commission for Labor Cooperation shall have free access to company property and export processing zones and to all offices, tribunals, and meeting places of beneficiary countries' labor-law administrators, in order to monitor and record each and every act of labor-law implementation and enforcement."*

1. For example, Commission staff should have the unimpeded right to accompany beneficiary-country labor inspectors and other officials when the latter oversee elections of worker representatives at company sites, mediate collective bargaining, arbitrate labor disputes, certify represenative status of worker organizations, hear and decide charges of unfair labor practices, etc. (This proposal entails the establishment of permanent offices of the Commission in individual beneficiary states or clusters of members states.)

2. This proposal would dramatically strengthen the incentive effect of worker-rights provisions in U.S. trade legislation and multilateral agreements. If labor ministry officials, labor inspectors, labor arbitrators, and other beneficiary-country officials know that each of their actions is actually or potentially subject to full transparency -- in the form of Commission staffers literally watching and marking their clipboards with the record of enforcement activities -- the concrete impact would be great. Each labor inspector, for example, would know that his lax, phony, or corrupt administrative actions could lead, virtually automatically, to the loss of very substantial economic benefits to local private and public elites with interests in the export sector of the individual country or Export Processing Zone .

2. As noted above, this proposal would also lay the evidentiary groundwork for expeditious and effective judicial review of the Commission's annual decision about whether the beneficiary country has fully and effectively enforced its labor laws.

3. This powerful enforcement function of the Commission may appear much more desirable and politically feasible if the Commission staff *combines its function of monitoring and record-keeping with its functions of training and providing technical assistance to local labor-law enforcement officials. That is, the Commission's monitoring and evaluating functions are a built-in by-product of a program to assist beneficiary countries in building administrative capacity and strengthening the rule of law, in this instance in the particular area of labor-law enforcement.*

***7. "The Commission on Labor Cooperation shall have a multi-party composition: One-fourth representatives from member states' labor ministries, one-fourth from member states' representative labor organizations, one-fourth from member states' legal and labor-relations experts of undisputed independence and integrity, and one-fourth from international labor-rights organizations [ILO; international or national labor federations; international trade secretariats; or the like]."***

1. One virtue of this composition of the Commission is that it implements values of democratic participation and sovereign representation (via the first two constituents).

2. A second virtue is effectiveness of enforcement: The last three, and perhaps all four, constituents of the Commission are independent watchdogs of labor-rights enforcement.

***8. "In the periodic reports required above, the Commission shall rank member states according to their degree of effective enforcement of domestic and international labor rights, based on the Commission members' deliberation about the relative effectiveness of different rules and mechanisms for enforcing worker rights. Specified economic benefits shall be prorated according to the member states' relative ranking in the effective enforcement of labor rights."***

1. This proposal builds now-familiar principles for "reinventing government" into the legislative or multilateral regime. That is, the Commission shall not only gather information about labor-rights enforcement, but also (a) shall act as an information clearinghouse about mechanisms for enforcing labor rights, (b) shall deliberate about and announce "best practices" of labor-rights enforcement based on disciplined comparison of enforcement procedures of different member states, (c) shall establish "benchmarks" of the most effective prevailing practices, (d) shall encourage a "race to the top" by offering greater positive incentives to those member states that rank higher relative to other member states, and (e) shall encourage continuous innovation and improvement in the benchmarks of best practices for enforcement of labor rights.

EXECUTIVE OFFICE OF THE PRESIDENT
COUNCIL OF ECONOMIC ADVISERS
WASHINGTON, D.C. 20500

MEMBER

November 19, 1999

CC: MJ
RE
KS

MEMORANDUM TO KAREN TRAMONTANO, OVP
ROBERT SHAPIRO, COMMERCE
JON ORSZAG, COMMERCE
DAVID WILCOX, TREASURY
ROBERT CUMBY, TREASURY
HARRY GRUBERT, TREASURY
WILLIAM SAMUEL, LABOR
HARRY HOLZER, LABOR
ED MONTGOMERY, LABOR
DAVID WALTERS, USTR
KEN FRIEBERG, USTR
RICK SAMANS, NEC
MALCOLM LEE, NEC
IAN BOWLES, CEQ

FROM: ROBERT LAWRENCE RL

SUBJECT Today's Meeting with AFL-CIO Representatives

This is a reminder that the meeting with the Union representatives will take place today at 3:00 p.m., in Rm. 324, OEOB. Dr. Martin Baily will chair the meeting. If you have not already done so, please provide your clearance information to Alice Williams as soon as possible. She is reachable at 202-395-5042.

The agenda items are:

1) Import surges
2) Offsets
3) Environmental regulation and competitiveness
4) The need for capital in manufacturing
5) The impact of non-neutral taxes on international investment (if time allows)

# AFL-CIO MEETING
Friday, November 19, 1999
3:00 p.m.

Room 324 OEOB

Attendees: Administration

Martin N. Baily, CEA
Robert Z. Lawrence, CEA
Kathryn L. Shaw, CEA
Audrey Choi, CEA
Karon Tramontano, WH
Robert Shapiro, Commerce
Jon Orszag, Commerce
David Wilcox, Treasury
Robert Cumby, Treasury
Harry Grubert, Treasury
William Samuels, Labor
Harry Holzer, Labor
Ed Montgomery, Labor
David Walters, USTR
Rick Samans, NEC
Ian Bowles, CEQ

AFL-CIO

Thea M. Lee, AFL-CIO
Mark Levinson, UNITE
Robert E. Lucore, Teamsters
Thomas I Palley, AFL-CIO
David A. Smith, AFL-CIO
Ron A. Bloom, USWA
Owen E. Herrnstadt, IAM
Robert Pajkovski, UFCW
Michael E. Conyngham, IBT

Reduct – points of these

Nov 17

Trade Surges

Offsets

Environment & Investment

Capital bias against manufacturing.

Taxes & impact on location – tax subsidy for closure

invest abroad / taxes when return here

Tues 10

1) ~~[illegible]~~ training – a subsidy for general training
2) enforcement – duty pref. to developing countries – respect "core labor standards"
3) labor law – – lax enforcement