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PERSONAL PROPOSAL
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February 20, 1997

MEMORANDUM FOR: GENE SPERLING

FROM: PAUL DIMOND *PD*

SUBJECT: G.I. BILL MEMO

CC: KEN APFEL ✓
TIM BARNICLE
MIKE SMITH
BARRY WHITE

Three suggestions for the draft memo.

First, the tone and assumptions about the President's state of knowledge and decisions are way off the mark. Contrary to the draft's implication, the President knows what he has been repeatedly urging for more than two years now: "My G.I. Bill will transform the confusing tangle of federal training programs into a simple skill grant to go directly into eligible workers' hands." State of the Union, February 4, 1997. The President knows that the antiquated JTPA training system is built on hundreds if not thousands of separate contracts between state and local bureaucrats and their local training providers; and he knows that this "confusing tangle" does not work. As an integral part of his counter to the new Republican Congress' call for devolving large chunks of the federal budget to states and localities, the President blew right past the tired, old federalism debate and proposed to put federal education and training resources and good information directly in the hands of individuals so they -- not some state or local bureaucrat -- could make their own learning choices for "paths to a better future."

As a result, the memo shouldn't start by telling the President he doesn't understand all of the complexities of his original proposal; and the memo shouldn't end by telling him all of the reasons why we can't devise "a simple skill grant to go directly into eligible workers' hands." Instead, the memo should proceed from the assumption that the President knows of what he speaks; and the memo should explain (a) why so far we haven't been able to deliver what he wants and (b) the full range of options -- including with the different budget costs -- to actually achieve what he wants.

Second, the draft memo misreads the political realities in important respects. My reading of the Hill authorizing committees is that there is no great desire to pass any bill this year, with the exceptions of something on vocational education or youth. Our only risk with such narrower bills is that they will fail to incorporate the President's new call for all youth to graduate from high schools with the high academic skills essential to benefit from at least two years of college and to thrive with lifelong learning in the new knowledge economy. Yet, the draft memo fails to

cite either this risk or the nature of the President's new call on both vocational education and school-to-work for high academic skills to prepare all youth for at least two years of college.

With respect to adult training, the primary pressure for any bill comes only from the governors, who seek straight devolution of all DoL programs and dollars to the states so that the governors are free to use them for welfare reform. The draft overstates the independent interest of any R's and D's on the authorizing committees to do anything; and the draft fails to point out how our WTW Jobs Challenge proposal is designed to provide \$3 billion extra for welfare reform over 3 years so that governors don't need to raid training dollars for working families.

The draft totally misses the real "forest" of Presidential power in this political vacuum by getting lost in the "trees" of the differing views of constituencies and the prior history of negotiation that led nowhere and should not be the starting point for the President this year. The real political reality is that the President has won the education and training debate in his re-election out in the country, and the Congress (and the constituencies) know it: for post-secondary education and training, this means that more federal dollars will go directly to individuals and families to make their own choices if that is what the President demands! Unlike last summer, the President doesn't need a bill for re-election about which he can claim victory to win votes in the fall 1996 election. The President won re-election and high ground on post-secondary education and training for individual grants and purchasing power: the President can now demand -- and should accept nothing less -- than what he really wants.

Third, there should be three options fully and fairly fleshed out and explained:

- Individual Grant, Current Budget. This is a real Skill Grant, federally defined, put directly in the individual's hand. The cost per skill grant should have a maximum of \$3,000, the same as a Pell Grant, with the numbers of persons served determined by the sum of (a) average Skill Grant cost X the number of dislocated workers who can't find jobs after 8 weeks of job search, who we project will opt for a Skill Grant and don't qualify for a Pell Grant, (b) the average cost per Skill Grant x the number of "underemployed" now provided with actual training (above counseling, job search, resume and work preparation) under the current contracting system who will opt for a Skill Grant (and don't otherwise qualify for a Pell Grant because they elect courses not in a degree sequence) and (c) the increase in the number of JTPA eligible individuals who will be served by our expanded Pell Grants. The average costs should also take into account three factors: first, the "leverage" provided by state and local support of community colleges for individual grants (about 1.5 times the amount of the federal individual grant); second, that use of Skill Grants for non-degree training are short-term or part-time and may not require any federal support beyond tuition and books; and the extent to which many persons now receiving JTPA training already qualify for and can be served by the expanded Pell grants we have already proposed. I believe that these cost-saving factors and analysis will enable us to demonstrate that we will be able to increase the number of low-income workers who can be provided with individual Skill Grants and Pell Grants under our currently proposed budget than are now served by the "confusing tangle of federal [i.e., JTPA-contracted] training programs." The issue is not how many

individuals might not be served by such Skill Grants: it is how many more can be served by this new approach to individual grants the President wants than under the JTPA-contracted system that he is trying to replace. Any projected unmet demand from more eligible workers for these non-degree Skill Grants beyond what will automatically be absorbed in Pell Grants should be met by the President calling on the States, localities, and future Congresses to provide additional funding each year for such individual grants (as they now do with respect to Pell Grants.) It is surely no argument against this option that the availability of individual Skill Grants (and Pell grants) will increase the demand for use beyond what DoL's funding of the current tangle of contracted training supports. Finally, OMB, DOL, and DoEd should present the options for gate-keeping and information, including ways that JTPA training providers that have any prospect of being competitive can qualify for the new individual grants.

- Individual Grant, Full Budget. The second option should be the same as the first, except that we should explicitly budget the total federal resources for a Skill Grant that works precisely like quasi-mandatory Pell Grants: i.e., it budgets to fund all the demand we project. Instead of calling on localities, states, and future Congresses to be ready to fund any increase in demand resulting from a complementary Pell Grant-Skill Grant system, we should provide our best estimate of what that future demand is and what its federal budget cost will be. As I understand the budgeting process, all that is required for this fiscal year is the total one-year increase (and a willingness to negotiate with Congress on how to pay for this within this fiscal year's discretionary cap).

We should also spell out how the President can achieve either the first or second option as a part of the Budget Reconciliation process: make the proposed federal eligibility criteria apply to student loans as well (as we also should be proposing for the Pell Grant increases and expansions already in the Budget.) The President should understand how much he can and can't achieve for Skill Grants (like Pell Grants) without ever going through the authorizing committees. I also still recommend that we detail an option that shifts both Pell Grants and Skill Grants to the mandatory side -- so that the President can understand the full implications of this alternative to achieving a balanced budget for a generation to come.

- State-local Skill Grant. This option should spell out precisely what federal parameters, if any, would be placed on state or local discretion in designing Skill Grants. If this option is so open-ended as to permit state and local bureaucrats in "One-stop Centers" to design hundreds if not thousands of separate "Skill Grants" for dislocated and underemployed workers to use as training programs selected by the "One-Stops," then this option is no more than a flimsy facade for continuing the very "tangle [thousands of local contracts] of federal training programs" that the President is trying to replace. With all due respect, I do not see how the third option -- at least as described in the draft -- holds any promise for achieving what the President has said he wants.

I also do not see how such a state/local block grant of training resources will in any way preserve or protect existing federal funding, let alone build the case for increases in future years, for DoL appropriations: we have learned that block grants, whether dubbed "Performance Partnerships"

or "state-designed devolution," are easy targets for budget cutting: in the new balanced budget environment, state block grants will have half the size, if they have even half the half-life of their Nixon "revenue-sharing" and Reagan "block grant" predecessors. In contrast, individual grants that serve a national purpose -- whether discretionary like Pell Grants or mandatory like Medicaid -- provide a much different budget dynamic. Somebody better come up with a better design and case for the third option, or it will be dead on arrival with POTUS.

One final point: The One-Stop Career Centers do not offer a foundation or a reason for the President to propose or to accept a G.I. Bill that fails to "transform the confusing tangle of federal training programs into a simple skill grant to go directly into eligible workers' hands." These "One-Stop Centers," like other offices run by the employment service, are the place where the hundreds if not thousands of local training contracts are now negotiated by state or local bureaucrats; moreover, these "One-Stop Centers," like the other offices run by the employment service, serve a declining share of the rapidly expanding local labor, education and training markets. That is why our conception of "One-Stops" -- like America's Job Bank and Labor Market Exchange on-line -- always has been open to all users, including high-schools, community colleges, other providers of education and training and counseling, employers, intermediaries, and students, workers, and families. No one, and certainly not this President, ever touted One-Stop Career Centers as the exclusive intermediary in the increasingly vibrant and competitive local labor, education or training markets. One-Stops can and should play a significant role, not as an exclusive franchise, but as one available source for good information for all and good counseling for some. And their funding should stand on their own merit, not as the exclusive foundation for any separate and second-class system of federal support to individuals for education or training.

THE WHITE HOUSE

WASHINGTON

February 5, 1997

Boeing \$6.6B
103
purchase rights for 527

MEMORANDUM FOR GENE SPERLING

FROM: Dorothy Robyn

SUBJ: Meeting with Phil Condit, CEO of Boeing

Mr. Condit views this meeting as a courtesy call. In addition to thanking you for the Administration's strong support of Boeing and the aerospace industry, he will raise two issues: a pending strike by American Airlines pilots, and the proposed Boeing-McDonnell Douglas merger.

American Airlines. American Airlines is facing a threatened Feb. 15 strike by its pilots. This is important to Boeing because the airline recently agreed to replace its fleet entirely with Boeing aircraft over the next 20 years. Specifically, American has a \$6.6 billion contract to buy 103 Boeing aircraft, with "purchase rights" for another 527 aircraft. American explicitly linked the all-Boeing purchase to pilot approval of an acceptable contract. (The pilots are represented by the Allied Pilots Association, or APA, an independent union.)

Condit hopes the Administration will intervene to fend off the strike, and American Airlines has made the same request privately. Specifically, American would like the Administration to urge the pilots' union to agree to binding arbitration, which it has so far resisted. There is some precedent for this: in November 1993, the President intervened to settle a strike by American Airlines' flight attendants.

I have communicated with Bruce Lindsey about this (he handled the 1993 intervention), and his private view is as follows: The APA (from what he is hearing) is not in a mood to settle and therefore we should not (yet) get the President involved. Bruce suggests we make clear to Condit that we are informed and concerned, but we should not promise anything. You should say something like the following: *We are monitoring the situation and are in touch with officials at DOT and Labor about it. If at some point it became clear that our intervention would be helpful, we would consider it.*

Proposed Merger. Following several years of discussions, in early December longtime rivals Boeing and McDonnell Douglas agreed to merge. The \$14 billion stock swap will create a \$48 billion (1997 revenues) behemoth that will have two-thirds of the world aircraft market and be a strong No. 2 to Lockheed Martin in defense. The proposed merger capped a year of explosive growth by Boeing, including record aircraft orders and the \$3.1 billion acquisition of Rockwell's defense and space unit.

The FTC has jurisdiction over the antitrust review. The review will cover a range of issues of possible concern to DoD and NASA. In addition, the FTC will have to decide whether the absence of a third civil aircraft manufacturer (Douglas) will reduce competition between Boeing and Airbus. Most analysts think not.

2-3-97

American Air, Pilots Union Agree to Meet

By SCOTT MCCARTNEY

Staff Reporter of THE WALL STREET JOURNAL
American Airlines, facing a threatened Feb. 15 strike by cockpit crews, accepted an overture from its pilots' union to meet this week before the scheduled start of "super mediation" talks in Washington next week.

An exact date and place for the meeting hasn't been set, though the two sides aren't expected to get together before Thursday. They haven't met in more than two weeks.

James Sovich, president of the Allied Pilots Association, requested a meeting with American's president, Donald Carty, to present the union's economic analysis of its contract demand. Pilots contend their analysis, assembled with industry consultants, indicates the company could afford pilot demands.

American, a unit of AMR Corp., Fort Worth, Texas, says the pilots' demands would raise costs to uncompetitive levels. A company spokeswoman said the meeting will focus on economic analysis of contract issues.

The company has pushed binding arbitration as a means to settle the dispute, which is more than two years old, but the APA has resisted invitations to let a third party resolve differences.

Last month, APA members overwhelmingly voted down a tentative contract that offered stock options and a 5% raise over four years in exchange for some productivity improvements. Both management and union leaders had agreed the contract kept American's pilots at the top of the industry in pay.

The APA drafted a "settlement offer" seeking pay raises of more than 11% over four years, plus a boost in stock options. Pilots also objected to a provision in the tentative agreement allowing a limited number of 50-passenger "regional jets" to be flown by commuter airline pilots, who are represented by a different union. The new offer states, "regional jets shall be flown only by American Airlines pilots."

American officials contend the offer would boost costs by \$200 million a year and force a retreat from head-to-head competition with carriers such as Delta Air Lines, which would enjoy lower cockpit costs.

After the tentative agreement was rejected, the National Mediation Board imposed a 30-day "cooling off" period that is set to expire at 12:01 a.m. EST on Feb. 15, and asked both sides to gather in Washington next Monday for five days of intense negotiation. After that, pilots say they will strike if no settlement has been reached.

Justice Agency to Review Raytheon-GM Agreement

Don Jones News Services

WASHINGTON — The Justice Department said it will handle the antitrust review of Raytheon Co.'s proposed \$9.5 billion acquisition of the defense businesses of General Motors Corp.'s Hughes Electronics Corp. unit.

Although the Federal Trade Commission generally reviews defense-related acquisitions, the Justice Department is taking this one because of its knowledge of the missile industry, people familiar with the matter said. That signals the possibility that antitrust regulators may take a close look at that aspect of the deal; some antitrust experts have speculated that regulators might have problems with the deal because it would put the core of the country's expertise in air-to-air missiles under one roof.

The Defense Department will also examine the deal, which was announced last month as part of GM's exit from businesses other than making cars and trucks.

Agency In Reports o In Two St

WASHINGTON — The Justice Department's highway safety report says that seven cars deployed in 1995 safety models with crash.

In two cases, the air bag deployed the driver stepped on the National Highway Traffic Safety Administration said in its report, released Friday.

Other drivers said after their car went over a pothole or a curb bag on one Legat while the car was snow.

There were seven two crashes, the agency said, about 100,000 of the

Alex Fedorak, a spokesman for America Inc., said "cooperating fully preliminary evaluation believe there's any bags in our vehicle.

The NHTSA of inquiry with a pre which the government exchange paperwork complaints, as in the suggestion then could be engineering analysis, and study the parts to see. The investigation of a recall for repairs actions are dropped.

U.S. DEPARTMENT OF LABOR

SECRETARY OF LABOR
WASHINGTON, D.C.

July 20, 1993

MEMORANDUM TO THE PRESIDENT

VIA: Robert Rubin

FROM: Robert B. Reich *BM*

SUBJECT: Reconciliation, the EITC, and the Minimum Wage:
How much progress towards the make work pay goal?

cc: Lloyd Bentsen, Leon Panetta, Donna Shalala,
Laura Tyson, Carol Rasco

An assessment of the EITC proposals in the reconciliation bills and the objective of "making work pay" leads to two recommendations. First, we should work to ensure that the House EITC reforms -- which reflect the Administration's proposal -- are retained. The Administration/House reforms make it easier to achieve the goal of lifting families with full-time workers out of poverty and provide overdue tax relief to poor childless workers.

Second, such an assessment underscores how the minimum wage and the EITC are complementary policies, and that it is time to begin to investigate what minimum wage reforms may be appropriate. To achieve the goal of making work pay, the minimum wage should be raised and then indexed. Even the substantial Administration/House EITC expansion cannot achieve the goal alone. And just as certain features of the EITC make up for shortcomings with the minimum wage, certain features of the minimum wage address shortcomings with the EITC. For example, in contrast to the EITC which is nearly always received through one lump sum payment at tax time, the effects of a change in the minimum wage are felt with every paycheck.

This assessment has led me to step up Labor Department efforts to review the minimum wage. I will report back to you in 90 days with my initial recommendations, via the NEC and/or the Domestic Policy Council.

House vs. Senate EITC

In designing the parameters of your EITC expansion, the combined value of full-time minimum wage earnings, plus EITC benefits, plus food stamps, and minus payroll taxes, was compared to the poverty line. The proposed EITC increase for families

with two or more children was set at a level that would lift a family of four with a full-time minimum wage worker out of poverty.

The Administration's EITC proposal, incorporated in the House bill, would attain this objective virtually precisely. But two of the assumptions made in the calculation should be highlighted. First, to reach the objective, the calculation assumed that the value of the minimum wage would equal \$4.50 an hour in 1994 dollars.¹ Second, the assumption of the receipt of food stamps -- valued at more than \$3,000 for a family of four with minimum wage earnings -- is often unwarranted. Substantially less than half of working poor families receive food stamps.

All this suggests there is virtually no room to maneuver in terms of cutting back our proposed expansions in the EITC. Nevertheless, the Senate reduced the proposed increases in a variety of ways. For example, the Senate provisions make it somewhat less likely that families with full-time workers will be lifted out of poverty. A family of four with two children would receive a maximum EITC benefit that would be \$56 lower than under the House bill. Such a family with a full-time minimum wage worker would therefore fall \$56 further below the poverty line.

The Senate's elimination of the new, small EITC for childless workers also is very troubling. Poor childless workers would no longer receive an offset for the new energy taxes they may have to pay. In addition, more than any other group of taxpayers, poor childless workers have been hit hardest by tax increases since 1980. Several of these increases contained regressive tax provisions that included an EITC offset for working poor families with children, but did not include an offset for poor workers without children. As a result, the overall federal tax burden of the poorest fifth of households without children has risen a dramatic 38 percent since 1980. Single workers also are the one group that still pays federal income taxes even when they are in poverty. The new EITC for childless workers would help address these problems.

The Role of the Minimum Wage

The minimum wage and the goal. Even if the Administration/House EITC reforms are fully adopted, indexing the minimum wage at \$4.50 an hour is a minimum prerequisite to reaching the goal of lifting families of four with full-time

¹A minimum wage level of \$4.50 an hour in 1994 is consistent with indexing the wage floor at its 1992 level of \$4.25 an hour.

workers out of poverty. If the minimum wage is not indexed, or if it is indexed at a lower level, the goal will not be achieved.

- If the minimum wage remains unchanged at a given, nominal level year after year, it will take a continuously expanding EITC just to maintain minimum wage families at the same real income level. Otherwise, the fall in the purchasing power of the minimum wage will drop families further into poverty.
- A small difference in hourly wage levels can have substantial effects on total income. If the minimum wage is indexed at \$4.25 an hour instead of at \$4.50, the effect on the annual earnings of a full-time worker (employed 2,080 hours a year) would be a reduction of \$520.² For a minimum-wage worker employed half-time, the reduction would be \$260.
- Since the large majority of the working poor are employed for part of the year or for less than 40 hours a week, since most of the working poor do not receive food stamps, and since many of the working poor live in families of five or more, most of the working poor will remain in poverty even under the Administration/House EITC expansion and a \$4.50-an-hour minimum wage. A larger minimum wage increase could narrow the poverty gap for these working poor households.

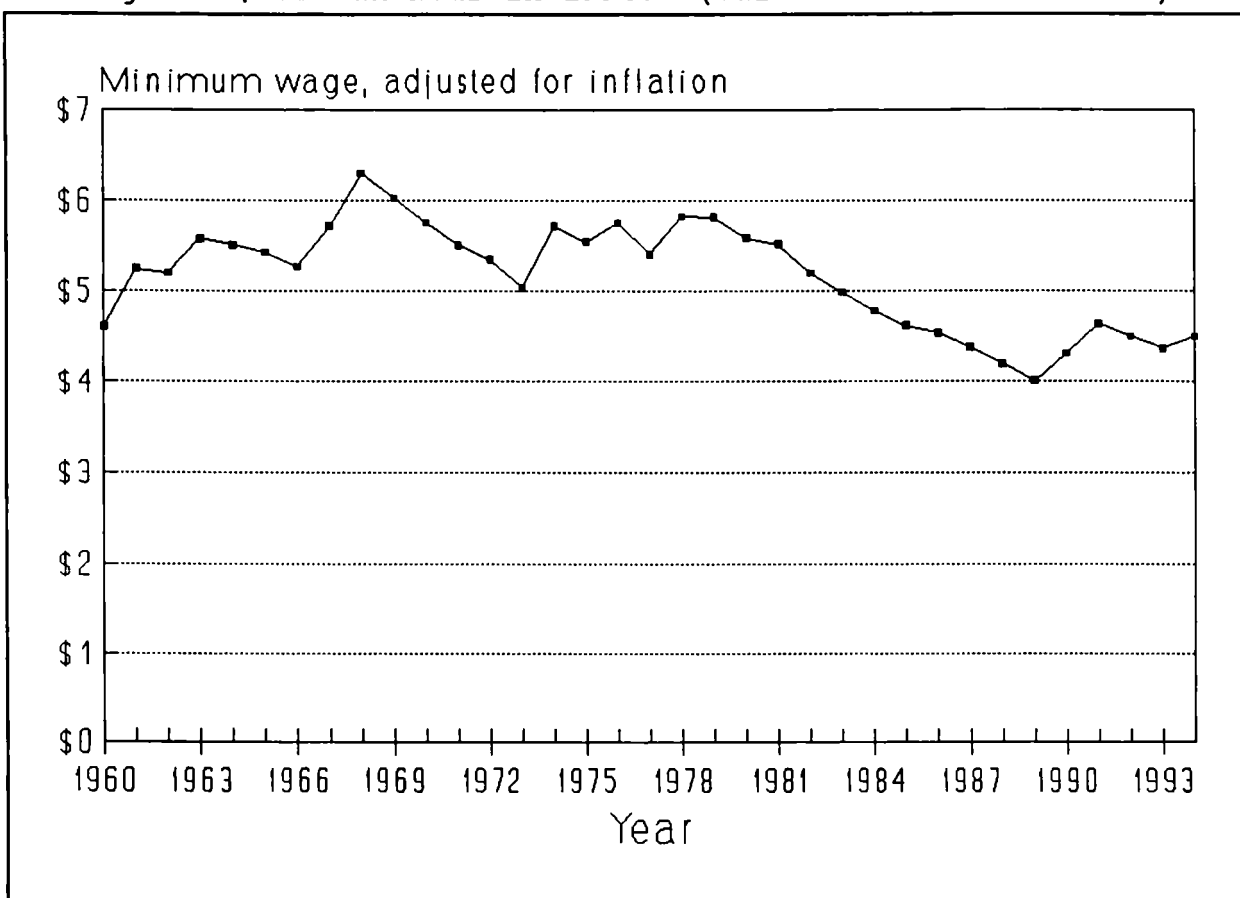
Historic Comparisons. From 1981 to 1990, the minimum wage remained at \$3.35 an hour, despite the jump in the cost of living. President Bush agreed to raise the wage floor to \$4.25 an hour, after vetoing a bill mandating a higher level. But this increase made up less than half of the ground that had been lost to inflation.

Consequently, increasing the minimum wage by just 25 cents to \$4.50 an hour, and then indexing it, would yield a minimum wage well below its traditional value.

- A minimum wage of \$4.50 an hour in 1994 would be more than \$1 -- or about 19 percent -- below its average value in the 1970s, after adjusting for inflation. (See Figure 1.)

²The net effect on income would be less because the family would owe less in payroll taxes. If the family receives food stamp benefits, which are higher for families with lower incomes, the net effect would also be diminished somewhat.

Figure 1. Historic value of the minimum wage, assuming a minimum wage of \$4.50 an hour in 1994. (Values in 1994 dollars.)



- In fact, setting the minimum wage at \$4.50 an hour in 1994 would establish a lower real level than what was agreed to by President Bush. He supported a level of \$4.25 an hour as of April 1, 1991; in 1994 dollars, that would equal an estimated \$4.67 an hour.

For full-time minimum wage earners living in families with two or more children, the net income of a full-time worker receiving \$4.50 an hour and the Administration/House EITC would be significantly higher than the net income of a full-time minimum wage worker during the Bush years. The larger EITC would more than offset the somewhat lower value of the minimum wage.

Taking a longer view, under the Administration/House EITC and a \$4.50 an hour minimum wage, the combined value of minimum wage earnings and the EITC, minus payroll taxes, would be about the same for families with two children as the average combined

value in the 1970s.³ In other words, for these families, the establishment and expansion of the EITC over time will have essentially offset the fall in the value of the minimum wage over time.

Since, however, workers with less than two children qualify for a smaller EITC than workers with two or more children, minimum wage earners with less than two children would have less net income than in the 1970s. The increase in their EITC will not have offset the fall in the minimum wage.

Delivery issues. On the one hand, it can be argued that the substitution of a higher minimum wage with a higher EITC would be a positive accomplishment. To be sure, the EITC poses no threat to employment opportunities and can be better targeted to families in need.

On the other hand, there are several reasons why the minimum wage and the EITC are best viewed as policies that complement -- rather than substitute for -- each other. One is the timing of payments:

- More than 99 percent of EITC recipients receive their benefits in one lump sum payment when they file their taxes. A partial redress to this delivery problem may be included in the reconciliation bill, and stronger remedies are being examined in the context of welfare reform, but it is likely to prove very difficult to change this proportion substantially.
- By contrast, the minimum wage is delivered in a more timely manner for struggling families; the effects of the minimum wage are felt with each paycheck.

A second factor to consider is public perception. Your pledge to make work pay has been well-received, but despite the EITC's many merits, I believe a larger lump sum payment delivered through the tax code will not demonstrate our commitment to supporting those who play by the rules as much as a minimum wage increase would.

Finally, there is the issue of striking the right balance between a private and public sector approach. The costs of making work pay are too large to be borne entirely by either the public or private sectors. Relying on both a stronger EITC and a stronger minimum wage involves the appropriate sharing of the

³Because changes in the value of food stamps are difficult to compare over time, these calculations did not consider food stamp benefits.

burden between the two sectors.

Next Steps

The complementary effects of the EITC and the minimum wage on the working poor are important. For this reason, it is important to consider the value of the minimum wage in the context of developing our welfare reform proposal.

At the same time, however, a full assessment of where to set the minimum wage should consider a wide range of factors beyond its income effects on the working poor. After all, most minimum wage workers are not poor. And the potential effects of a minimum wage increase on employment should of course be weighed, particularly in combination with the effects of the health reform proposal.

Unless you prefer a different schedule or approach, the Labor Department intends to fully assess all these factors over the next 90 days. I will then forward my initial recommendations to you, via Carol Rasco and Bob Rubin.

THE PRESIDENT HAS SEEN
3-31-97

THE WHITE HOUSE
WASHINGTON

March 28, 1997

MEMORANDUM FOR THE PRESIDENT

FROM: GENE SPERLING
CHUCK MARR

RE: Federal Retiree COLA Delay

Copied
Sperling
Marr
LOS

Last week's NEC Weekly Report briefly discussed a meeting we had with Moe Biller, head of the Postal Workers Union. He expressed his concern about our COLA delay proposal. This memo responds to your request for more information on the issue, including specifically how much money is involved.

Summary of Main Points

1. The annual three month COLA delay, which saves \$1.7 billion over five years according to CBO, is one of three provisions in our budget that affect federal employees' retirement.
2. Our package is essentially what the Republicans had in their 1995 vetoed reconciliation bill. Additionally, we tentatively agreed to this during those prior aborted negotiations.
3. Our current package, which was the Republican end point in 1995, is an improvement over what Republicans proposed early on in their reconciliation process in 1995.
4. We enacted into law a similar COLA delay in 1993.
5. The problem today is that there are no other plans on the table and, therefore, the federal employee and retiree groups are focused primarily on our plan. The COLA delay is getting the most attention.

1. Federal Employee Retirement Provisions in our Budget

Our budget includes three proposals affecting federal employees' retirement: the three month COLA delay; an increased employee retirement contribution; and an increased agency retirement contribution. A policy argument in support of these changes is that federal retirement benefits are more generous than private benefits. This argument can only be taken so far,

however, because some federal employee salaries are below comparable private salaries.

Like many other proposals, this package is a way achieve budget savings with minimum harm. The three proposals include:

- **COLA Delay** - Our budget delays for three months federal civilian retiree COLAs during each of the five years 1998-2002. Instead of receiving a COLA on January 1st, the COLA would begin on April 1st. Foreign Service retirees would face the same delay, but military retirees would not be affected.

Budget Savings: CBO estimates that the COLA delay will save \$1.7 billion over five years, including \$383 million in 2002. OMB scores the proposal at \$1.5 billion and \$309 million respectively.

Impact on average retiree - For the typical retiree, the difference will be about \$146 per year.

- **Employee Contribution** - Federal employees are basically split into two groups regarding retirement benefits. The first group are people hired before 1984 and are participants in the Civil Service Retirement System or CSRS. The second group, post-1984 hires essentially, participate in FERS, the Federal Employee Retirement System. CSRS participants, who do not pay Social Security taxes, contribute 7 percent of their base pay towards their retirement. FERS members, who pay the 6.2 percent of Social Security taxes, contribute 0.8 percent towards their retirement benefit. Our budget phases in a 0.5 percent increase in this contribution for all employees, both FERS and CSRS. In 1999, the contribution would be increased by 0.25 percent, then another 0.15 percent in 2000, and finally 0.1 percent in 2001. According to CBO, this would reduce the deficit \$1.9 billion over 5 years and \$648 million in 2002. OMB respective totals are \$1.8 billion and \$621 million. These savings are counted as receipts.
- **Agency Contribution** - Our budget increases agency contributions for CSRS employees by 1.51 percent beginning October 1, 1997 and continuing through September 30, 2002. This would save \$2.9 billion over five years and \$577 billion in 2002, according to CBO, and \$3.0 billion and \$567 respectively according to OMB. Agencies would have to pay for this out of their discretionary budgets.

2. **Republican End-point in 1995**

Our current package is what was included in the final Republican reconciliation bill. It was developed in the Senate, mostly by Senator Stevens who was then the Chair of the Government Affairs Committee.

Additionally, we tentatively agreed to this package during negotiations at that time.

3. An improvement over earlier Republican Proposals

Back in late 1995 at the end of the Republican reconciliation process, what is now our current package, then referred to as the "Stevens package", was viewed as quite minor compared to what Republicans were contemplating earlier that year. To put it in perspective, on October 31, 1995, in a Washington Post column, under the headline of Thank Benefit Advocates, Mike Causey wrote:

"the bottom line: Feds will take two minor hits. Employee contributions to the Civil Service Retirement System and the Federal Employees Retirement System will go up 0.5 of a percentage point over three years. The government payment will jump 1.5 percentage points next year. Full COLAs for retirees will continue to be paid in April (instead of January) for the next seven years. The alternative might have been diet COLAs and other benefit cuts."

Earlier in 1995, House Republicans moved on alternative proposals in this area that were more objectionable to the employee and retiree groups. These included:

- **Larger Employee Contribution Change** - As part of the "Contract With America" tax cut bill, the House in April, 1995 passed a 2.5 percent increase in the federal employee retirement contribution. This is five times the increase proposed in our current budget.
- **Change in Retirement Formula** - The federal employee retirement benefit formula is based on the highest three years of salary. As part of the same "Contract" tax bill, the Republican House voted to change the formula to reflect the highest five years and, thereby, reduce benefits.
- **Health Insurance Premium** - The House version of the reconciliation bill included a major change to federal employee/retiree health benefits. Under current law, the government pays 72 percent of the typical premium. The House Republicans tried to switch this to a flat dollar amount indexed to CPI. To the extent medical inflation exceeded overall inflation, federal employees and retirees would have had to pay more.

4. Similar COLA Delay was Enacted in 1993

In 1993, as part of our economic plan, we enacted into law a COLA delay for both civilian and military retirees. For civilian retirees, a three month COLA delay was enacted for the years 1994, 1995, and 1996. For military retirees, an even longer delay was enacted, including a three month delay in 1994 and nine month delay in 1995-1998. Subsequent legislation put the military retiree COLAs on the same schedule as the civilian.

This year, with the delays sunsetted, both civilian and military retirees received their COLAs on January 1st.

5. Ours is the Only Plan on the Table to Shoot At

The problem we confront is that ours is the primary plan on the table. There are no Republican alternatives to make us look good by comparison and the Blue Dogs do not have similar provisions in their plan.

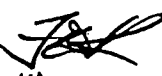
The COLA delay is getting the most intensive focus. Representative Morella has a non-binding resolution, which was introduced on February 4th, with up to 159 cosponsors on it. A similar "No COLA Delay" Senate Resolution, introduced by Senator Sarbanes on March 13th, has 8 cosponsors to date.

THE WHITE HOUSE
WASHINGTON

November 15, 1996

MEMORANDUM FOR THE PRESIDENT

FROM:

Franklin D. Raines 
Carol H. Rasco 

SUBJECT:

Welfare Reform Administrative Issues in Food Stamps, Supplemental Security Income (SSI) and Medicaid with Significant Budgetary Impact

One of the most difficult resource decisions you will make in the 1998 budget is how to correct the problems you identified in the enacted welfare reform bill within an aggregate spending path that leads to a balanced budget in 2002. The overarching decision is whether to spend more or less for welfare reform fixes than the \$13 billion over 5 years now in our 1998 budget planning. This reserve roughly corresponds to the savings from the bill above and beyond the Administration's proposal.

Potential Legislative Fixes. In the near future, we will discuss with you a number of legislative proposals that address the concerns you articulated when you signed the bill. While it is possible to address, in part, all the issues you raised within the \$13 billion, more expansive proposals could easily cost much more. For example, bridging the differences on immigrants and Food Stamps could cost as much as \$22 billion over five years and \$5 billion in 2002.

Additional Near-Term Administrative Issues. In addition to the broader question of aggregate welfare spending, we are raising to your attention three potential -- and time-sensitive -- administrative fixes for Food Stamps, SSI children, and Medicaid. All three decisions are on a faster track because they have an immediate impact on benefits to individuals, are subject to statutory deadlines, and/or are important to the state planning process. However, a decision to implement all three at this time would require substantial budgetary resources (ranging from \$1 to \$10 billion over 1998-2002) and reduce funding available for later legislative changes. In addition to cost, there are political implications to softening the impact of the welfare bill administratively in the near-term. These decisions -- in particular a decision on SSI children -- may raise advocates' expectations for the welfare fixes the Administration will later propose through legislation, and, at the same time, jeopardize the Administration's ability to sell our future legislative proposals to Congress -- such as fixes to the immigrants provisions and welfare-to-work proposals. This memo seeks your decisions on the three near-term administrative issues in the context of overall funding for welfare reform fixes in your 1998 balanced budget.

A. NEAR TERM ADMINISTRATIVE DECISIONS

1. Food Stamp Time Limits for Childless Adults

Current Law. The welfare reform bill limited Food Stamps for childless adults to 3 months in 3 years. Individuals are exempt from the time limit if they are: under 18 or over 50 years of age; responsible for the care of a child or incapacitated household member; medically certified as physically or mentally unfit for employment; pregnant; or exempt from the Food Stamp work requirements. This provision is estimated to save approximately \$3 billion over 1998-2002. When States fully implement this provision in 1997, almost 800,000 individuals will be ineligible to receive Food Stamps each month. These individuals may only stay on the program if they are working over 20 hours per week or participating in an intensive workfare program. We do not expect States to establish costly workfare slots for this group, given limited State resources and pressures to create jobs for the welfare population. About half of these individuals have no other income other than Food Stamps, putting their average monthly income at \$171 or 28% of the poverty level. Over 40% of this group is made up of women.

The law provides an exemption for cities, counties, or states with unemployment rates above 10%, at State request, and allows States to request waivers for any group of individuals residing in an area that "does not have a sufficient number of jobs to provide employment for the individuals." The Administration assumed a very strict interpretation of "insufficient jobs" when the bill passed, but we have the ability to define the criteria for areas with insufficient jobs more broadly as a part of implementation. Since there is substantial latitude in the law for how the Administration interprets exemptions and waivers, the Administration can substantially reduce the numbers of individuals actually denied benefits. You indicated that you would work to fix this provision when you signed the legislation.

The Food Stamp issue is very time-sensitive because the time limit goes into effect on November 22, 1996, at which time people subject to the time limit will receive notices stating that they are subject to a 3-month clock. If we do not have a final decision very soon on areas to be exempted from the time limit, several hundred thousand people will be threatened with a loss of benefits unnecessarily. States are already preparing their internal guidance and formulating waiver requests. Oregon, Louisiana, West Virginia, and Washington have already submitted requests.

Option #1 -- Provide waivers only for areas with serious impediments to employment, such as a rural town with only one major employer. While employment may be below 10%, no jobs may be available if the major employer is not hiring. This option would provide relief to few areas. The baseline assumes *de minimis* use of the waiver authority, and this option roughly corresponds to the baseline (i.e., it would not have any costs over 1998-2002). Options #2 and #3 below propose waiver policies that would exempt more people and therefore add costs over 1998-2002.

Option #2 -- Limit waivers to broader geographic-based criteria, such as areas defined as "labor surplus areas" by the Department of Labor (DOL). These are areas with at least two years experience of unemployment 20% higher than the national average. This interpretation could exempt up to 30% of those subject to the time limit who are living in areas with historically high unemployment, albeit under the threshold in the bill. Geographic-based exemptions are arguably an appropriate exercise of the discretion Congress granted. This option would cost \$1 billion over 1998-2002 and \$0.18 billion in 2002.

Option #3 -- Establish broad waiver criteria in addition to geography. The Department of Agriculture (USDA) and some outside groups have proposed guidance that ranges from exempting areas heavily dependent on declining industries, such as coal mining, to providing waivers to groups of individuals who face fewer employment opportunities due to insufficient job skills, for example, persons without a high school education. The proposed guidance would exempt an individual without a high school diploma from the time limit if she lives in an area where the unemployment rate for people without a high school diploma exceeds 10% -- effectively exempting an individual without a high school diploma from the time limit even though she lives in an area with only 4.3% overall unemployment. Another way of formulating the option would be to exempt anyone without a high school diploma who has actively tried to find employment but who has been unsuccessful. The theory would be that if they are unable to find a job appropriate to their skill level, then there must be insufficient jobs available.

Exempting entire classes of individuals goes beyond what Congress contemplated in providing exemptions to the provisions. While individuals without a complete high school education do face a tougher labor market than others, it is not reasonable to assume that they cannot find employment without regard to local economic circumstances. In addition, some might perceive an exemption for this group to be an education disincentive. Highly preliminary estimates show that exempting persons without a high school diploma could exclude 45% of those subject to the time limit. In total, USDA's proposed guidance could exempt between 65 to 75% of those subject to the time limit and therefore cost as much as \$2 billion over 1998-2002 and \$0.33 billion in 2002. It is unlikely that all States will take full advantage of such broad exemption criteria; however, the Administration would have to defend the position that lack of a high school diploma is a qualification for Food Stamps.

[Recommendation.] We recommend Option #2, which would allow States to exempt areas with historically high unemployment relative to the national average, even though it is below the threshold in the bill.

Advocates will argue that Option #2 is not broad enough because it fails to address the particular difficulty individuals with limited skills face in finding employment. Many will lose their food stamps even though they are looking for but cannot find work. Rather than administratively exempting a specific group of individuals from this policy, we could consider

exploring a legislative solution -- similar to the Administration's proposal last year -- for those who are looking for work but cannot find jobs.]

2. Extension of Waivers Granting Transitional Medicaid Benefits

At the time you signed the welfare reform bill, 20 States had waivers that included authority to extend transitional Medicaid benefits beyond the normal 12 months (in some cases up to 36 months). Six more requests are pending. Before welfare reform, the Administration's policy was to establish budget neutrality across the AFDC, Medicaid and Food Stamps programs over the lifetime of the waiver. Typically, costs from additional Medicaid and Food Stamps benefits were offset by expenditure reductions projected to result from decreases in the AFDC caseload.

Since welfare reform replaced AFDC with a block grant, we can no longer project Federal savings resulting from lower AFDC caseloads. OMB and HHS agree that past Medicaid expenditures related to welfare waivers should be forgiven. OMB and USDA also agree that all past and future Food Stamps waivers should continue to be budget neutral. At issue is whether the future costs of extended transitional Medicaid benefits for current and pending Medicaid waivers should continue to be held to a budget neutrality standard. This issue is a priority because pressure is growing from 26 States on waivers given enactment of welfare reform. Absent a timely decision, some States could opt to suspend their expanded transitional benefits.

Option #1 -- Require States to adhere to budget neutrality for current waivers. The Administration could require States that want to continue their waivers to establish that the extension of transitional Medicaid benefits is budget-neutral. Because there are no longer any savings to the Federal government from the block-granted AFDC program, budget neutrality would require that the Federal government pay 0% of the costs (i.e., provide no Federal match) for the extended transitional benefits.

It is likely that States will continue to provide the transitional benefits waivers only if they believe they can finance them through State savings from the new welfare reform block grant. If transitional Medicaid really has the desired effect, however, States will reap substantial benefits from lower welfare benefits costs.

States may argue that requiring them to re-establish budget neutrality is a "breach of the contract" under which their waivers were granted. However, all Federal Medicaid waivers provide for renegotiation if a change in Federal law occurs. Moreover, this policy is consistent with the consensus policy to enforce budget neutrality in the Food Stamps program after the enactment of welfare reform.

Option #2 -- Modify the budget neutrality policy for the 26 States with waivers or pending applications. The Administration wants to promote welfare-to-work initiatives, of which extended transitional Medicaid benefits policy has been a cornerstone in the past. This

option would effectively grandfather all states that were trying to do this prior to welfare reform. This would increase the likelihood that the 20 states with current waivers will continue the extended transitional benefits and that another six would begin them. The Health Care Financing Administration (HCFA) actuaries have not completed their estimate of the costs of this option; however, early information suggests that this option could cost between \$160 million and \$200 million over 1998-2002.

Option #3 -- Propose legislation. Should the Administration be accused of treating waiver and non-waiver states inequitably, we could propose legislation to create a new optional Medicaid benefit to allow all states to provide extended transitional benefits. In combination with the forgiveness of budget neutrality for grandfathered states, such a legislative proposal could cost between \$1.0 billion and \$1.4 billion between 1998 and 2002, and between \$.2 and \$.3 billion in 2002.

[*Recommendation.* We recommend Option # 2, to grandfather the 26 states that have waivers administratively. We also recommend that you consider *all* welfare reform legislative fixes at the same time, and thus we do not at this time recommend legislation to create a new optional Medicaid benefit for extended transitional benefits.]

3. SSI Childhood Disability Definition

Current Law. The welfare reform bill provided a new, tightened definition of childhood disability for the Supplemental Security Income (SSI) program, consistent with the Administration's proposal. However, the statutory language is not precise, and the Social Security Administration (SSA) has substantial discretion in drawing the eligibility line to implement the new law. The Office of Management and Budget (OMB) and the Congressional Budget Office (CBO) scoring was based on a similar understanding of the impact of the provision at the time of enactment. The SSI childhood disability provision in the final welfare reform bill was scored at \$8.4 billion in savings over 6 years and \$1.9 billion in 2002, and was estimated to remove 190,000 children out of 1 million from the rolls by September 1997. Since enactment, advocates and some Senate moderates have argued for an implementation policy that is significantly less restrictive. We are asking for your decision on this issue soon so that SSA may begin processing the approximately 7,000 new cases a week that they have held since August.

Option #1 -- Implement the law consistent with the scoring assumptions and general understanding at time of passage. This would significantly tighten eligibility compared to the law before the enactment of welfare reform. Under this option, 190,000 of the 1 million children now on the rolls would become ineligible for SSI. Most of the children who would lose eligibility under this option have mental impairments, including the behavioral disorders that were the impetus for the changes to the program, such as conduct disorder, learning disabilities, or Attention Deficit Hyperactivity Disorder (ADHD). A greater number are mentally retarded. Others have a chronic physical disease that is episodic, or is fully or partially controlled by

medication, such as asthma, epilepsy, or hemophilia. Still others have a condition such as cerebral palsy that, in that child's case, does not seriously impair more than one area of the child's functioning. This option does not add costs to the baseline.

Option #2 -- Modify the disability determination process to (a) limit the impact of tightened eligibility requirements on children with multiple physical impairments, and (b) require adjudicators to complete a standard form that will promote greater uniformity in decision making and lead to more allowances than would otherwise occur. Both of these changes can be accomplished administratively, were suggested by SSA, and make programmatic sense. Under this option, 145,000 children would be removed from the rolls by next September -- 45,000 fewer children than under Option #1.

To ameliorate the hardship for these children's families, under Option #2 we would also seek legislation to retain Medicaid eligibility for all children now on the rolls who lose SSI. OMB estimates that, under current Medicaid law, 77% of the children who lose SSI would retain Medicaid because of other qualifying factors; new legislation would provide for those children not covered under current Medicaid law. Option #2 would cost \$2.4 billion over 1998-2002, including less than \$0.5 billion for the legislative proposal. The 2002 cost would be \$0.5 billion.

Note that Option #2 is a more lenient policy than the one the Administration and Congress proposed. If we choose this option, we will have to justify changing our policy post-enactment.

Option #3 -- Further ease standard by greater recognition of chronic illness and re-assessment of borderline cases. Option 3 would add to Option 2 two features that are intended to preserve benefits for the children with the most serious disabilities not covered by Option 2: additional recognition of children with chronic or episodic illnesses such as AIDS, and an added assessment of children on the borderline. While SSA believes adjudicators will be able to learn the new procedures, this option would be more administratively difficult, time-consuming, and costly for SSA to implement than Option 2. Under this option, 100,000 children would be ineligible for SSI -- 90,000 fewer than under Option #1. Option #3 would cost \$4.2 billion over 1998-2002 and \$0.9 billion in 2002.

Option #4 -- Provide for a significantly lower severity standard in determining eligibility. This option is supported by advocates, Senator Daschle, and some Senate moderates from both parties. The Senate moderates argue that their explicit legislative strategy during the welfare reform negotiations was to insist on a definition that was ambiguous enough to satisfy the Republican leadership but would still give SSA the latitude to use a more lenient definition. Given that SSI cash benefits link these children to Medicaid coverage, and that the welfare reform bill simultaneously makes many other changes to the welfare system that could affect these families, advocates argue that it is appropriate to err on the side of SSA using its legal discretion to keep more children on the rolls. Under this option, 45,000 children would become ineligible for SSI -- 145,000 fewer than under Option #1.

There would undoubtedly be significant negative reaction to this option from the Republican majority, and it could be represented as negotiating in bad faith. Option #3 would cost \$6.4 billion over 1998-2002 and \$1.5 billion in 2002.

Option #5 -- Defer the SSI decision and make it with other 1998 budget decisions in December. Unlike the relatively inexpensive and uncontroversial recommendations on the Food Stamps and Medicaid issues, action on the SSI proposals will have significant budgetary and political impact. Choosing a spending option now will reduce the funds available for other welfare fixes by 20-30%, may disappoint advocates, and/or may portray the Administration as undermining the intent of the welfare bill -- thus threatening the success of future legislative changes to the welfare bill in Congress. Therefore, a decision could be delayed until the end of December when the Administration will be closer to defining an entire welfare reform fixes agenda. Within the context of a broader welfare reform package, this decision may be less vulnerable to criticism and give the Administration additional time to build Congressional support. However, there are a number of very compelling reasons to make a timely decision -- the Administration is required by statute to provide guidance on November 22, 300,000 current recipients will be notified about potential changes in eligibility this month, and 7,000 SSI applications per week will continue to go unprocessed.

[Recommendation. OMB recommends Option #2, using administrative discretion to moderately soften the original policy and retain SSI eligibility for 45,000 children who would otherwise lose benefits, and at the same time seek Congressional support for retaining Medicaid for all children now on the rolls.

DPC staff recommends Option # 3. This option would use administrative discretion to further expand the number of children who could meet the standard, and provide special protections for children on the borderline. SSA has had difficulty giving us a clear profile of these children, and it is difficult to be confident that SSA's rules reliably discern the most severe impairments. This option would provide extra assurance that children on the borderline will be properly evaluated. The disability community, members of Congress like Senators Daschle and Chafee, and leading editorial writers have made this a major issue, and might not even see this standard as taking adequate advantage of our latitude to assist children with impairments. We should also consider the challenges that many of these low-income families will face under welfare reform.]

B. THE OVERALL 1998 BUDGET ISSUE

In the context of a five-year balanced budget, any resources allocated to welfare reform make the task of reaching balance more difficult. Since the current plan for reaching balance by 2002 is already challenging our ability to find the necessary savings with acceptable policies, it is important to recognize that a decision to spend more than \$13 billion over five years will require further offsetting savings. The fact that administrative actions drive up spending in no way diminishes the need to find more offsets if we want to balance in 2002. At the same time,

whether you decide to spend more or less than \$13 billion to fix the welfare bill will influence your options on the immediate administrative issues.

Option #1 -- Limit welfare resources to \$13 billion. The recommendations in this memo would spend about \$3.6 - \$5.4 billion over five years on the three near-term administrative issues. With the \$8-\$10 billion remaining in the \$13 billion reserve, you would have sufficient resources to propose a repeal of most of the Food Stamp and Medicaid immigrant bans (but not SSI), a legislative fix for the Food Stamp 18-to-50s provision, other changes to mitigate the deep Food Stamp cuts, and expanded contingency funding.

On the other hand, if you choose the highest cost options on the administrative issues, you would spend \$10 billion before even discussing the larger legislative fixes. This would leave about \$3 billion to address the other problems with the bill. These resources would be exhausted by an exemption for immigrant children from the Food Stamp ban and a limited relaxing of the cap on the Food Stamp shelter deduction. You would not be able to make other legislative fixes within this total.

Option #2. Do not limit resources for welfare reform fixes to \$13 billion at this time. If you choose to spend more than the \$13 billion reserve, you will sharply limit your ability to meet demands for spending in other areas. Our current outline of the 1998 budget spends \$284 billion on non-defense discretionary programs in 1998, about half of which is for your priorities. For every additional \$2 billion you choose to spend on welfare fixes over five years, we would either need to increase the non-priority cut by 1% in 1998 (and freeze that level in the out-years), or selectively reduce priority programs. The non-priorities include important government functions such as Veterans Affairs (VA) medical care, tax collection, aviation safety, and the administration of Social Security benefits. Even if we protect your highest priorities -- say, in education and the environment -- we are left with programs such as Ryan White AIDS treatment, the National Institutes of Health, and Women, Infants and Children (WIC). If we look outside discretionary spending for these offsets, we face similarly unpalatable choices in Medicare and Medicaid, farm entitlements, civil service retirement, and veterans benefits.

C. DECISION ON OVERALL BUDGET STRATEGY

_____ Option #1. The maximum available for welfare reform fixes is \$13 billion, including the decisions below. **(Recommendation)**

_____ Option #2. Spend in accord with the administrative decisions below. Revisit the overall funding levels for welfare reform when we make final 1998 budget decisions.

D. DECISIONS ON NEAR TERM ADMINISTRATIVE ISSUES

1. Food Stamp Waiver Guidance

_____ Option #1. Provide waivers only for areas with serious impediments to employment. No additional cost.

_____ Option #2. Limits waivers to geographic-based criteria. Cost: up to \$1 billion over 1998-2002; up to \$0.2 billion in 2002. **(Recommendation)**

_____ Option #3. In addition to exemptions for geographic-based criteria, exempt all persons without a high school education from time limits. Cost: up to \$2 billion over 1998-2002; up to \$0.3 billion in 2002.

2. Transitional Medicaid Benefits

_____ Option #1. Budget neutrality for current and pending transitional Medicaid benefit waivers. No additional costs.

_____ Option #2. Modify budget neutrality policy for the 26 states with ongoing or pending waivers. Cost \$0.2 billion over 1998-2002; \$0.04 billion in 2002. **(Recommendation)**

_____ Option #3. Propose legislation to create a new optional Medicaid benefit to allow all States to provide extended transitional benefits. Cost: \$1.0-\$1.4 billion over 1998-2002; \$0.2- \$0.3 billion in 2002.

3. SSI Childhood Disability Definition

_____ Option #1. 1997 Administration policy. No additional cost.

_____ Option #2. Relax eligibility requirements relative to the Administration's proposals (Option #1) and propose legislation to ensure that all children currently on SSI rolls retain Medicaid coverage. Cost: \$2.4 billion over 1998-2002; \$0.5 billion in 2002. **(OMB Recommendation)**

_____ Option #3. Further ease standard by greater recognition of chronic illness and re-assessment of borderline cases than under Option # 2. Cost: \$4.2 billion over 1998-2002 and \$0.9 billion in 2002. **(DPC Recommendation)**

_____ Option #4. Significantly lower standard of severity than options 1 or 2. Cost: \$6.4 billion over 1998-2002; \$1.5 billion in 2002.

_____ Option #5. Defer SSI decision until December. No immediate cost, but 7,000 applications per week continue to go unprocessed.

February 2, 1996

MEMORANDUM FOR THE PRESIDENT

FROM: CAROL H. RASCO
LAURA TYSON

SUBJECT: STATUS OF G.I. BILL FOR AMERICA'S WORKERS AND
THE ROLE OF THE GOVERNORS

The purpose of this memorandum is to inform you of the position of the Governors to key provisions of your G.I. Bill for America's Workers -- Skill Grants, One-Stop Career Centers, School-to-Work and Funding Levels. Republican Governors are now working actively against your position in Conference, often with the tacit silence or explicit support of most Democratic Governors.

As one would expect, the Governors (including most Democratic Governors) oppose our Skill Grant proposal. The idea was to shift the debate away from the Republicans "block and cut" approach to training by creating an alternative that called for consolidation in order to empower the individual as opposed to simply just moving training from federal bureaucracies to state bureaucracies. Your GI Bill of Rights for American Workers puts the money in the hand of the individual; resulting in a more market driven system with one stop shopping and better information for each person.

Our proposal asks states to put in place a market driven system with one-stop career centers, ensuring that individuals get the training they need. Therefore, it is of little surprise that most Governors have expressed a desire for an approach that gives them more discretion. Nonetheless, we feel confident that our approach is popular with the American people and is one in which we should remain committed.

We have had some - though limited - success with the Republican Congress. In the House, the Republicans have sought deep cuts in training -- up to 30%. However, they have been supportive of mandating vouchers for Adult Training, Local Workforce Boards and One-Stop Career Centers. While we strongly disagree with their cuts, we have seen real progress in the House in accepting your skill grant/voucher structure. In the Senate, we have done less well. They have stayed with mostly a pure "block and cut" approach. The Senate bill "authorizes" States to have a skill grant approach. But, it does not require skill grants. Furthermore, it does not require any spending on training at all. States have almost complete discretion.

Also of note is training for younger people. The Senate Republicans have resisted entreaties by the Governors to run School-to-Work education funding through the States. It appears unlikely that the Governors will be your allies on any of the key issues that now

divide the Conferees. Therefore, your discussion with the Governors on these issues does not offer much common ground.

Following is a more detailed summary of the Administration position, the position the Governors have taken, and the status of these key provisions in the House and Senate Bills.

1. Skill Grants for Adults

- The heart of your proposal is to consolidate the resources from dozens of adult training programs and put a **Skill Grant worth up to \$2600** in the hands of the individual. This would empower dislocated and disadvantaged workers who are unable to find new and better jobs through job search to spend this voucher, for example, at a community college learning whatever skills they choose to get ahead.
- The Governors **oppose** individual Skill Grants. The Governors contend that they should be empowered to design whatever workforce system they believe best serves the needs of each state.
- **House Bill:** Requires that States design and implement a system to provide vouchers to dislocated workers and disadvantaged persons who can't find new or better jobs with job-search assistance. Accepts your basic position that resources should be placed directly in the hands of individual so that they can make their own choices.
- **Senate Bill:** Gives only lip service to your basic proposal for Skill Grants. Authorizes but does not require states to design and to implement a system of training vouchers. Any training, whether through vouchers or otherwise, is completely optional. The Secretaries are authorized to offer an incentive reward to states that establish a voucher system for training adults.

2. One-Stop Career Centers.

- Your G.I. Bill proposed to consolidate adult job search and reemployment programs so that states working in partnership with the mayors and the private sector in each local labor market area would design and implement responsive One-Stop Career Centers to provide (a) good information and counseling to individuals on jobs, skills, careers, and education and training providers and (b) effective job search to match individual job-seekers with employer hiring demands.
- The Governors have not actively opposed most of these provisions. The Governors, however, do oppose any required participation by the private sector, unions, and the mayors in design and implementation. The Governors have refused to accept your position that such market-driven reforms provide the means to empower individuals to make their own informed choices about how best to get ahead.
- **House Bill:** Includes strong one-stop career centers, supported by local public-private work-force boards. Embraces your position that such provide the basis for a constantly improving market-responsive system of education, training, and job search based on vouchers and informed choice of individuals.
- **Senate Bill:** Requires states to design one-stop careers centers to provide information, counseling and job search. Does not require local workforce board. Does not provide any requirement for training -- through vouchers or otherwise -- for dislocated or disadvantaged workers who can not find new or better jobs with their current skills.

3. School-to-Work for Youth.

- You proposed that many vocational education and other youth programs be restructured to support your basic School-to-Work principles, with funds flowing through the SEAs and LEAs to fund additional support for your proposed reform of secondary schools and the pathways to careers and college.
- The Governors have generally supported your School-to-Work framework for youth, but they want federal education and training funds for youth to flow through the Governors rather than through the schools.
- **House Bill:** Adopts the principles of School-to-Work (without using the name) but makes no provision for continuation of the School-to-Work seed capital grants. Job Corps remains as a totally separate program, but Summer Jobs is folded into the youth block grant as a permissible (but not required) activity.
- **Senate Bill:** Adopts School-to-Work principles (and name) for consolidated youth block grant. Requires states which have School-to-Work seed capital grants to continue the activities and transformation promised in their approved School-to-Work plan in implementing the youth portion of their workforce plan. Separate funding streams are provided for at-risk youth (to be based on School-to-Work principles) and for Job Corps.

4. Funding

- You proposed major increases in funding for Skill Grants, One-Stop Career Centers, youth programs built around School-to-Work, consistent with your commitment to greater federal investment in expanding educational opportunity for all Americans.
- The Governors -- particularly the Democrats -- initially expressed strong opposition to cuts in authorized levels of funding. The Governors, however, have long been and are now much more vocal in seeking flexibility in using federal education and training funds as they see fit, including for "economic development activities" proposed in the Senate bill that have virtually nothing to do with education or training.
- **House Bill:** Cuts the authorized levels 30% below current appropriation levels and sends all funds through the Governor. Provides Governors with discretion to "flex" (i.e., transfer) 10% of funds between the youth-education block grant and the adult-training block grant.
- **Senate Bill:** Cuts the authorized levels 20% below current appropriation levels but requires that youth education funds go through SEAs and LEAS. Also permits governors a 50% "flex" between the youth-education and adult-training block grants, with governors authorized to use half of this "flex" -- at total of 25% of all federal youth and adult workforce funds -- available to prop up failing firms with "economic development " retraining grants.

Attachment: Administration Letter from Secretaries Riley and Reich to Conferees

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February 21, 1996

MEMORANDUM TO THE PRESIDENT

FROM: ROBERT B. REICH AND LAURA D'ANDREA TYSON

SUBJECT: Response to Wage Stagnation and Related Issues

You asked us to move ahead on a meeting of CEO's who share our concern for corporate citizenship and the growing income gap -- and who have successfully done well both by their employees and their bottom line.

These meetings -- with CEO's and, potentially, other key economic leaders -- would offer an opportunity for you to exercise national leadership for five purposes:

- 1) Celebrating corporate leaders who do the right thing, and exerting moral suasion for values and purposes the President has consistently articulated: the need for companies to treat their workers as assets to be developed; for business, labor, and government to work together for the common good; and for society to offer opportunities for education and training and for people to make the most of these opportunities.
- 2) Discussing and planning a positive program for how business, labor, government at every level, educational institutions, and other public and private institutions can respond to the needs of working people and their families.
- 3) Advancing the public debate about how the changes in federal taxes, social programs, corporate subsidies, and other public policies that are being proposed by leaders across the political spectrum can promote corporate decisions that are beneficial to the entire society.
- 4) Promoting Administration policies -- such as improving education and training and securing health care and pension coverage-- that help working Americans make their way in times of change.
- 5) And providing working Americans with reassurance that the nation's leaders are concerned with their plight and offer answers for their problems.

To further these ends, we propose that you convene one or two of the following meeting options. In fact, all three of these proposals could be strung together as a series of national leadership events to build a shared consensus for corporate citizenship and demonstrate our determination to address an important American challenge. We could start small and informal, then build to a larger, more public event. We also could initiate these meetings with a group of likeminded CEO's and progressively add in more perspectives and interests -- CEO's with different points of view, union chiefs, leaders from other economic and social sectors, workers and middle managers, etc. However, each one of these options also could stand on its own.

OPTION ONE

A meeting with likeminded corporate executives focussed on positive examples of corporate citizenship (list attached). Among the questions these CEO's would address: What are the appropriate roles and responsibilities of the corporation? How do corporate citizens do right both by their employees and their bottom line? How can government and business find common ground in meeting our economic challenges?

Possible participants could include the CEO's of Corning (Baldrige winner), Levi-Strauss, Republic Engineered Steels, and Aaron Feuerstein of Malden Mills. These would include firms both unionized and not, big and small, public and privately held, even some that are 100% worker owned, from various regions and states.

This meeting would highlight successful companies that share our concerns about corporate citizenship, and it would solicit ideas on how we can encourage and support the expansion of responsible corporate decision-making. Presumably there would be media availabilities and public statements before and after the meeting.

OPTION TWO

A meeting with a broader spectrum of corporate executives, including not only likeminded CEO's but also executives from companies that have had layoffs but remain interested in exploring ways to offer support and security for working Americans. In addition to the examples listed above, some other companies whose CEO's might be invited include AT&T (until recently considered an exemplary employer), the defense contractor Loral (which is laying off workers but whose CEO, Bernard Schwartz, donated a recent bonus to a fund for the laid-off employees), Ameritech (Richard Nottebart), TRW (Joseph Gorman), Ford (Alexander Trotman), and GE (Jack Welch).

Here too, the meeting would solicit their ideas on how business, labor, government, and other sectors of society can respond to largescale job eliminations and stagnant wages -- and celebrate the positive examples of corporate citizenship -- but a more diverse group would give you an opportunity to hear different perspectives, enable you to demonstrate leadership among various points of view, and provide the media with a more varied story.

OPTION THREE

Perhaps the best opportunity to demonstrate presidential leadership, draw out all points of view and seek common ground on the broader urgent national issue of incomes growth is a larger meeting with a wide spectrum of corporate executives, investors, labor leaders, federal, state, and local government officials, educators and job training professionals, religious and civic leaders and academics. Invited participants also could include officials from both parties - for instance, Gov. Christine Todd Whitman of New Jersey, whose state includes AT&T's corporate headquarters. Both experts and everyday citizens could join you in a serious exploration of America's collective challenge of lagging living standards, combining economic analysis with real-life examples. It would place you at the center of a significant effort to acknowledge and address this challenge.

A day long event, modelled on earlier Administration successes, would work well here. It should be a public meeting, with the discussion designed to increase the exchange of ideas and diminish grandstanding and set-piece speeches. There would be an effort for some kind of follow-up after the meeting, with participants asked to develop specific, concrete solutions for problems, such as how to provide training and help find jobs for workers who lose their jobs in downsizings.

We're ready to move quickly to put the details on this framework as soon as we're given the go-ahead. Shall we proceed?

Attachment

WHITE HOUSE STAFFING MEMORANDUM

DATE: 1-20 ACTION/CONCURRENCE/COMMENT DUE BY: 1-31SUBJECT: Reich Memo on minimum Wage & Radio Address

	ACTION	FYI		ACTION	FYI
VICE PRESIDENT	☒	☐	McCURRY	☐	☐
PANETTA	☒	☐	McGINTY	☐	☐
McLARTY	☐	☐	NASH	☐	☐
ICKES	☒	☐	QUINN	☐	☐
LIEBERMAN	☒	☐	RASCO	☐	☐
RIVLIN	☐	☐	SOSNIK	☐	☐
BAER	☒	☐	STEPHANOPOULOS	☒	☐
CURRY	☐	☐	STIGLITZ	☐	☐
EMANUEL	☐	☐	STREETT	☐	☐
GIBBONS	☐	☐	TYSON	☒	☐
GRIFFIN	☐	☐	WALLEY	☐	☐
HALE	☐	☐	WILLIAMS	☐	☐
HERMAN	☐	☐	<u>Speaking</u>	☒	☐
HIGGINS	☐	☐	<u>Waldman</u>	☒	☐
KLAIN	☒	☐		☐	☐
LAKE	☐	☐		☐	☐
LINDSEY	☐	☐		☐	☐

REMARKS:

Any comment?

RESPONSE:

U.S. DEPARTMENT OF LABOR

SECRETARY OF LABOR
WASHINGTON, D.C.

MEMORANDUM FOR THE PRESIDENT

96 JAN 30 PM 4:07

FROM: ROBERT B. REICH *RR*
DATE: JANUARY 26, 1996
SUBJECT: THE MINIMUM WAGE AND YOUR
FEBRUARY 3 RADIO ADDRESS

Saturday, February 3, 1996 will mark the first anniversary of your proposal to increase the minimum wage from \$4.25 to \$5.15 in two increments. Thus, your Saturday radio address on February 3 presents an excellent opportunity to make the case.

Congress' failure to raise the minimum wage by 45 cents in July 1995, the first of the two raises you proposed, has already deprived full-time minimum wage workers of \$525. If Congress had passed your proposal, these minimum wage workers could have provided their families with:

- ✓ food for their home for 3 months; or
- ✓ 10 months of health insurance premiums; or
- ✓ 10 months of paid electricity bills; or
- ✓ a 21-month supply of prescription drugs for ailing parents or sick children.

If Congress continues its refusal to pass your proposed minimum wage increase (the full 90 cents), full-time minimum wage workers will lose an additional \$1,425 between now and next February. This additional money would allow these minimum wage workers to provide their families with:

- ✓ food for their home for nine months; or
- ✓ complete health care for a year; or
- ✓ paid utility bills for almost a year; or
- ✓ one year's tuition at many community colleges.

You might emphasize these human consequences of Congress' inaction by inviting minimum wage families to attend your radio address.

You could also remind Americans that increasing the minimum wage has long had the support of leaders in both parties. The first half of the 90-cent increase you have proposed would simply restore the minimum wage to its value in 1989, when Congress voted in an overwhelming and bi-partisan manner (382-37 in the House, 89-8 in the Senate) to increase the minimum wage, also by 90 cents.

During the 1989 debate over the minimum wage, Senator Dole harshly criticized those who would call for a cut in the capital gains tax but oppose an increase in the minimum wage: "I think that many of us feel that this is not an issue where we ought to be standing and holding up anybody's getting a 30-to-40 cents an hour pay increase, at the same time that we're talking about capital gains. I never thought the Republican Party should stand for squeezing every last nickel from the minimum wage."

Please let me know if you would like to proceed with a radio address on the minimum wage. If so, I'll work with Don Baer and other appropriate staff to prepare the address.

FAX TRANSMITTAL SHEET

RECEIVER TELECOPIER NUMBER: 456-2878TO: Gene SperlingFROM: Secretary ReichDATE: 5/10/94 TIME: 2:35PAGE NUMBER ONE OF 4 PAGES

TRANSMITTER TELECOPIER: (202) 219-7659

ADDITIONAL COMMENTS:

URGENT | Please review immediately
and call / fax comments by 4:30 pm
Today!

IF YOU HAVE QUESTIONS REGARDING THIS FAX CALL: Ann219-8274

~~SECRET~~

1,050 words

Genl!
Larry!
What do you think
ASAP
Bob

Fight Inflation Through Workforce Flexibility

Robert B. Reich

The business pages present a seeming paradox these days. With each new statistical report announcing healthy economic growth and falling unemployment, the financial markets slump. Investors associate job gains with rising inflation. The Federal Reserve Board responds to the good news with anxiety, and repeatedly raises short-term interest rates in order to slow down growth. Yet 8.4 million Americans who want work can't find it, and long-term joblessness remains near record levels.

How can unemployment be too low when so many people lack jobs? Are the financial markets irrational? Is the Fed being recklessly cautious? Or does it all make sense in some esoteric way that the average citizen shouldn't try to understand?

In fact, the paradox is fairly simple to explain, though it will require a great deal of work to remedy. Simply put, the American economy is becoming divided. Part of the economy is moving very rapidly into a world of new work, where skills and flexibility are paramount. Another part of the economy, anchored to outdated structures and styles of production, is being left behind in the world of old work, based on economies of scale and structural stability. In the new-work economy, many labor markets are becoming tight, and many employers are having trouble finding the workers they need--the kind of conditions that can kindle inflation worries. The old-work economy has plenty of what economists call "excess capacity," which the rest of us experience as the misery of idleness or underemployment.

But the extra capacity in the old economy is largely irrelevant to the new economy. Too few Americans are able to make the transition from old work to new. The economic statistics combine the two economies, and obscure the distinction. But this gap explains the paradox of inflation fears amidst what in earlier years would have been seen as punishingly high rates of joblessness.

The pressures dividing the two economies, moreover, are likely to intensify in the years ahead. Defense-sector downsizing in the wake of the Cold War will continue. Trade will expand as the North American Free Trade Agreement takes hold, and as the latest round of global trade liberalization is ratified and implemented worldwide. More trade means more jobs in the skill-intensive production where America has a competitive edge, but for unskilled workers it means more pressure from low-wage rivals overseas. The ongoing revolution in information

technology will transform or destroy old industries and create new ones. And companies throughout America are struggling to remake themselves. By some counts, the pace of layoffs at major corporations has actually increased as the economy's health improves.

Economists are fond of debating the "natural" rate of unemployment--the level of joblessness that is required to keep inflationary pressures in check. Some argue this rate has increased over time. Others disagree, and lament that we are accepting the waste and pain of high unemployment to no good purpose. Still others suggest that the relationship between the unemployment rate and the inflation rate may have broken down altogether.

Let me refrain from joining that debate here, and make a simple observation about the natural rate of unemployment: Lower is better. If we can arrange to keep inflation under control while suffering less joblessness, we can spare America both the lost production and the social damage that needless unemployment entails. And the best way to lower the natural rate of unemployment is to ease the transition of American workers from old work to new work. The fewer workers are left behind in the old economy, the less pressure there will be on new-economy labor markets. Workforce flexibility can overcome the painful paradox of simultaneous skill shortages and joblessness.

This is why the central goal of the Clinton Administration's labor agenda is equipping all Americans for the workforce transitions that will punctuate every productive career. The School-to-Work Opportunities Act, signed into law last week, will catalyze the creation of state and local partnerships to provide young Americans--especially the 75 percent who won't earn a conventional college degree--with well-marked pathways to meaningful work. The Administration's commitment to health care reform is not simply about fixing the medical system. It amounts to labor market reform as well. The health care crisis has been slowly restricting labor mobility, with surveys suggesting that 10 to 30 percent of workers are reluctant to change jobs because of fear of losing health coverage due to pre-existing conditions. Reform that guarantees every American "health care that's always there" would liberate workers trapped in the wrong job, thereby expanding opportunities throughout the economy. And welfare reform--including serious training, job placement, and support services--is essential to rescue dependent Americans from the bonds of idleness and give them roles in the workforce.

Foremost among our efforts to accelerate economic transition, perhaps, is the Administration's proposed Reemployment Act, which will transform our current unemployment system -- constructed in an earlier time, to fit the needs of a simpler economy -- into a reemployment system that allows all American workers to face change with more confidence. It will deliver reemployment services, computer-driven access to national

jobs data, counseling, testing and assessment and, for those who need it, long-term training and the income support to make this training a realistic option. It will spur the development of a network of one-stop career centers to give all workers efficient access to the services they need. The Reemployment Act promises to accelerate Americans' transition from old work to new work, and ease the tragic tension between unemployment and inflation.

The consequences of failing to narrow the gap between the old economy and the new are potentially grave. They include inflationary tensions as new-economy workers become scarce, and growing inequality and downward mobility among workers trapped in the old economy. But we also risk the emergence of strong political pressures to slow down or reverse structural change. Resentment among those left behind could fuel a backlash against what should be broadly beneficial economic progress.

We must seek security and stability not in shoring up the status quo, but in flexibility for all. Instead of trying to block change, we must bring all Americans along into the new economy instead of leaving some stranded. By easing workforce transitions, we can both strengthen our sense of economic commonwealth, and bridle inflationary pressures.

June 1, 1999

MEMORANDUM FOR GENE SPERLING

From: Rick Samans, Sarah Rosen

Ref: Meeting with AFL-CIO on POTUS ILO Speech

The purpose of the meeting is to touch base with the AFL before the ILO speech and provide it with an opportunity to make suggestions as to content. Following is a working outline of the speech and specific themes keyed to the topics covered by the outline. In addition, attached is the latest draft of the "trade principles" document that seeks to define more clearly what "putting a human face on trade" would mean. It may be relevant background for the discussion.

As far as the meeting itself is concerned, we think we ought to be in a solicitous, listening mode. In particular, we should listen for signs as to whether the AFL will be content for the speech to focus on our existing ILO-specific agenda or whether they'll want to see the President tackle bigger, more controversial aspects of the issue (i.e., trade policy). If they try to steer us toward the latter, we could talk about hitting the SOTU themes (no race to the bottom; need to level up standards; need for a new consensus; trade with a human face, etc.). There would be some value to restating these concepts in a prominent international forum right before a G-8 discussion of globalization at the Cologne Summit. It is possible we'll be in a position to extend upon these ideas by then, depending on the outcome of our internal deliberations over the "trade principles" paper.

I. Outline

The Role of Labor Standards in Globalization

-- Bolstering role of ILO in new architecture...

Strengthening Labor Standards around the World

- Declaration & implementation mechanism
- New arm proposal
- Work with IFIs
- Work with WTO & trade agenda (check w/ Holly to make sure consistent w/Quad & WTO ministerial position)

Combating Child Labor

- IPEC
- AIP & role of voluntary codes (??)
- New convention

II. Themes

General themes on ILO/labor standards

- Underscore that the ILO matters more than ever in the international economy. We view it as key part of world economy's evolving institutional architecture. US wants to help strengthen the institution and raise the international profile of its work.
- Outline vigorous vision of the benefits of global integration and discuss ILO's unique potential to help address challenges. Objective of trade and investment is to raise living standards broadly. Define "human face" concept in this context.
- Stress importance of labor standards and social safety nets to progress in living standards in rapidly changing economies. In this sense, emphasize crucial role of ILO in placing a human face on trade (achieving broad participation in the benefits of rapid integration and technological change).
- Hail the ILO's Declaration on core labor standards as key building block of this larger institutional architecture for world economy --- and key element of strategy to put human face on trade. Emphasize importance of follow-up (implementation and compliance). Pitch US proposal for a special arm in the ILO and appeal to other countries to commit funding and/or seek its services.
- Highlight importance of new child labor convention as another building block in this architecture/strategy.
- Frame recent ILO work on core labor standards/child labor as complementary to the emerging focus on labor issues in IFIs as well as growing bilateral foreign assistance to help countries on labor matters (detail DoL's activities in providing technical assistance).
- Suggest need for similar, complementary focus on labor issues in trade policy and institutions as well. Appeal for greater cooperation between WTO and ILO, patterned after steps taken already by IFIs and ILO. Address developing country concerns about US interest in labor/trade issues in part by invoking historical role of labor standards in US economic development, how improved standards and institutions contributed to positive sum game outcomes for workers and businesses here. In this way, frame our interest in labor/trade issues as motivated by our commitment to open markets and create more trade, not less.

Combatting Child Labor

- I have made a personal commitment to combatting the worst forms of child labor at home and abroad.

- Praise Secretary Herman for her leadership. Note efforts at home to crack down on sweatshops, illegal child labor in agriculture, and improving safety of children in summer and part-time work.
- DoL has also prepared a series of annual reports that establishes the scope and extent of the problem and what works. Cite from this year's conclusions -- solutions are education and locally designed wholistic solutions.
- Last year, the United States increased 10-fold our commitment to the ILO's International Program for the Elimination of Child Labor (IPEC) -- from \$3 to \$30 million annually. Plan to continue that level.
- Describe briefly why IPEC is works.
- Call upon other nations to join us in funding. [Do we want to save the "call on other nations" for support for the new ILO arm??]
- Building on conclusions of most recent DoL report, this year, I have asked Congress for an additional \$10 million for USAID program entitled "School Works!" aimed at helping provide solid educational alternatives as part of coordinated strategy in consultation with IPEC projects.
- Finally, discuss new convention on the worst forms of child labor to be adopted the following day. (Assuming negotiations go well.)
- Describe what it will do -- make clear that child prostitution, forced or indentured labor, work by the very young, work in hazardous conditions, are all unacceptable. Give examples from successful IPEC programs how we can take children from these unacceptable conditions and instead move to school, family sufficiency, safety.
- Discuss the importance of having a universal norm -- a convention that should achieve widespread ratification -- so for the first time it is clear what universally accepted international standards find abhorrent.
- Indicate that he looks forward to a rapid evaluation and sending the convention to the US Senate for ratification. [depends upon outcome and how much confidence US Council and AFL have that TAPILS will say convention is consistent with US law.]

AIP and Codes of Conduct???

- As important as it is to encourage efforts by governments to raise labor standards, there is much that businesses, labor unions, international organizations, local religious groups and NGOs, etc. can do to improve the working conditions in factories around the world.
- In 1996, I called upon leaders of the apparel and footwear industry to work with human right activists, consumer groups, and labor to discuss the problem of the production of goods under sweatshop conditions. Diverse groups came together and crafted a code of conduct and monitoring principles and now a organization -- the Fair Labor Association -- to accredit monitors and oversee compliance for companies and the licensees who make goods with the logos of over 75 colleges and universities. This effort will help to protect workers and give the public information it needs to make informed purchasing decisions.
- There is no one right way. Other innovative approaches include [do we want to expressly mention projects of AFL and the work of SA 8000 or just describe these generically?]

- I want to encourage any innovative efforts to eliminate sweatshops. That's why my budget includes a new \$5 million grant program to be administered by the Department of State to test a number of different models.
- [NOT SURE IF WE WANT TO TALK ABOUT CODES OF CONDUCT GENERALLY. WILL BE READ AS SIGNAL ON SULLIVAN. COULD SAY THAT CODES OF CONDUCT MAY HELP TO ESTABLISH INTERNATIONAL NORMS AND HELP INFORM CONSUMERS BUT IMPORTANT THAT THE CODES INCLUDE ALL CORE LABOR STANDARDS AND ARE ACCOMPANIED BY EFFECTIVE MECHANISMS TO IMPLEMENT -- ALTHOUGH THAT COULD BE TAKEN AS A SLAM AT SULLIVAN.]

Next Steps of agenda to broaden participation in benefits of integration/technological progress

- ILO institution building (new leadership, new arm, other incremental steps TBD).
- Child labor convention implementation and follow-up.
- Preview relevant G-7/8 Summit items: social safety nets/debt/protection of social spending in IMF fiscal reform packages.
- New trade round launch in Seattle; perhaps outline our specific (modest) labor trade objectives (ILO/WTO cooperation) and the areas of a new round agenda we think could benefit developing countries.
- Perhaps discuss future evolution of ILO country surveillance and review activities, drawing parallels to existing macroeconomic (IMF) and trade (WTO) processes. Talk about need to strengthen the ILO's capacity to independently and objectively monitor country labor conditions (per Sen. Moynihan's suggestion)?

THE WHITE HOUSE
WASHINGTON

August 28, 1995

MEMORANDUM TO THE PRESIDENT

FROM: GENE SPERLING
JON ORSZAG 
SUBJECT: Minimum Wage and California

The Federal minimum wage was last raised to \$4.25 per hour in April 1991. Since then, inflation has eroded more than half of the value of the increase. And next year--if it is not increased--the minimum wage will reach its lowest real level in four decades. The Administration's proposal to raise the minimum wage to \$5.15 an hour--a 90 cent increase over two years--would help restore its real purchasing power and directly affect some 11 million hourly workers.

- In 1989, Congress voted with strong bipartisan support to increase the minimum wage from \$3.35 to \$4.25 per hour in two steps over two years. The Administration's proposal is for an identical 90 cent increase over two years.
- In 1994, 64 percent of minimum wage workers were adults, age 20 and over. And about 60 percent of minimum wage workers were women.
- The average minimum wage worker brings home half of his or her family's weekly earnings; and 39 percent of these workers are the sole breadwinner for their family.
- A minimum wage increase of 90 cents would mean a \$1,800 raise for a full-time, year-round minimum-wage worker. This is not an insignificant sum for low-income families. Indeed, it is as much as the average family spends on groceries in seven months.
- Over a dozen empirical studies--including a majority of those published in peer-reviewed journals in the last five years--find that a moderate increase in the minimum wage does not cost jobs. Several of these studies extend previous ones that had claimed, that raising the minimum wage decreases employment. For example, a study by Jacob Klerman of the RAND Institute in California finds that when the conventional time-series study is updated to include data through the 1980s, the minimum wage does not have a statistically significant impact on teenage employment.

- A modest minimum wage increase may not hurt employment because it will encourage more people to work; and because employers will be able to fill vacancies more quickly and experience lower turnover.

CALIFORNIA:

- An increase in the minimum wage to \$5.15 per hour would directly affect 1.2 million hourly workers in California, nearly 16 percent of all hourly-paid workers in the state.
- There is currently a bill in the California Legislature to raise the state minimum wage from \$4.25 an hour to \$5.00 in June 1996 and to \$5.75 in June 1997. The Legislature adjourns on September 15.
- California increased its state minimum wage from \$3.35 to \$4.25 per hour in July 1988, three years before the Federal minimum increased to that level. David Card, an economics professor at Princeton University, conducted a study of California employment by comparing teenage, restaurant, and retail trade employment growth in California to a group of comparison states. Card's results showed, "Contrary to conventional predictions, however, there was no decline in teenage employment, or any relative loss of jobs in retail trade." A similar study of California by Lowell Taylor, an economics professor at Carnegie Mellon, reached a contrary conclusion. However, Card's results hold up under varying assumptions, while Taylor's do not.
- An article in the *Los Angeles Times* (April 18, 1995) quoted Andrew Kim, the owner of a building maintenance company that pays some of its workers less than \$5.15 per hour, "Personally, I think [the minimum] should go up. I don't think it is enough for anyone to live off of."
- The *San Francisco Chronicle* led off its editorial on the minimum wage with, "Boost the minimum wage to 'Make Work Pay'" (January 30, 1995). The *San Jose Mercury News* wrote of the Administration's minimum wage proposal, "President Clinton's small hike isn't a job killer or a poverty buster. It's really a reward for the working poor, an incentive to hang in there. And that makes it worth fighting for" (February 7, 1995).

June 15, 1996

MEMORANDUM FOR GLORIA BORGER

FROM: GENE SPERLING

SUBJECT: Materials

I have attached some information on budget/economic issues that you should find helpful for tomorrow's show:

- I. **Minimum Wage.** In 1989, Senator Lott voted for a 90-cent increase in the minimum wage over two years. Now, a 90-cent minimum wage increase -- passed by the House -- is awaiting a vote in the Senate. See attached (page 1) for Lott's 1989 vote.

1/4 OF ALL Mississippi's Workers Would Benefit From A Minimum Wage Increase -- Higher Than Any Other State In The Nation:

- President Clinton's proposal to increase the minimum wage would directly benefit 162,000 workers in Senator Lott's State of Mississippi. [Source: Based on data from the Bureau of Labor Statistics, Current Population Survey.]
- This represents 25.2 percent of all hourly workers in the state -- that's a higher percentage than any other state in the Nation. [Source: Based on data from the Bureau of Labor Statistics, Current Population Survey.]

- II. **Kassebaum-Kennedy.** After the Senate passed Kassebaum-Kennedy 100-0 without Medical Savings Accounts (MSAs), Senator Lott said today in his radio address that Republicans would continue to hold up health care reform as they insist on untested, nationwide MSAs. Earlier this year, a bipartisan group of Senators rejected this provision. The President has made perfectly clear that he is willing to accept some experimental use of MSAs in order to reach bipartisan consensus. See attached (page 2) George Stephanopoulos' statement on Senator Lott's remarks.

In Mississippi As Many As 138,000 Americans in Families With a Worker Who Changed, Lost, Or Left A Job With Health Insurance, Would Be Guaranteed Continued Access To Health Insurance under the Kassebaum-Kennedy Health Insurance Bill which President Clinton has fought for. [Source: Based on data from Department of Health and Human Services, May 23, 1996.]

III. Senator Lott Supports \$600 Billion Tax Cut, But Said Numerous Times Last Year That A 7-year CBO-Scored Balanced Budget Was the Goal.

- On *Meet the Press* on May 19, 1996, Senator Lott stated that he supported repealing the 1993 and 1990 tax increases. He said: "I like it. I voted against both of those tax increases." Attached (page 3 and 4) is Lott's quote on *Meet The Press*.
- The *Washington Times* wrote that the "repeals [of the 1990 and 1993 tax increases] would mean a loss of \$600 billion in revenue over seven years." [Source: *The Washington Times*, May 20, 1996]
- Senator Lott may try to claim that we would not need to cut \$600 billion in spending to maintain a balanced budget because increased growth will raise tax revenue. Since CBO will not score the revenue effects of the possible increased growth, Senator Lott would run against everything he and other Republicans said last year when they argued that a CBO-scored seven-year balanced budget was the ultimate goal.

LOTT QUOTES INSISTING ON 7-YEAR CBO BALANCED BUDGET

Sen. TRENT LOTT:	"The focus should be on how we get the balanced budget in seven years with honest numbers." [CNN, December 15, 1995]
Sen. TRENT LOTT:	"There is no ambiguity... We say it twice [in the resolution]: 'Balanced budget by 2002 and CBO scoring.'" [Washington Times, December 11, 1995]
Sen. TRENT LOTT:	"We are perfectly willing to talk to the president about the chapter-and-verse details of how exactly do we get a balanced budget in seven years. ...What we are not willing to talk to the president about is whether or not we will do that." [San Francisco Chronicle, November 16, 1995]

IV. SUPPLY-SIDE: Response to supply-side claim that 1981 Reagan tax cut worked because tax revenues increased during the 1980s. Senator Lott has been known to make this claim -- to justify that supply-side has worked. But, the fact is the 1981 tax cut did not raised revenue: it resulted in a loss of real individual income tax revenue, helping to explode the deficit in the 1980s. Individual income tax revenue, adjusted for inflation, actually *fell* in 1983 and 1984, despite the fact that the economy was growing. *The revenue increases in the 1980s came from payroll taxes which were raised 6 times.* Attached (page 5) is a "claim and response" and on page 6 is the background data table.

SENATE VOTES 290, 291, 292

	290	291	292
ALABAMA			
Heflin	N	N	Y
Shelby	Y	N	Y
ALASKA			
Murkowski	N	N	Y
Stevens	N	N	Y
ARIZONA			
DeConcini	Y	Y	Y
McCain	N	N	Y
ARKANSAS			
Bumpers	Y	Y	Y
Pryor	Y	Y	Y
CALIFORNIA			
Cranston	Y	Y	Y
Wilson	N	Y	Y
COLORADO			
Wirth	Y	Y	Y
Armstrong	N	N	N
CONNECTICUT			
Dodd	Y	Y	Y
Lieberman	Y	Y	Y
DELAWARE			
Biden	Y	Y	Y
Roth	Y	N	Y
FLORIDA			
Graham	Y	Y	Y
Mack	N	N	N
GEORGIA			
Fowler	Y	Y	Y
Nunn	Y	Y	Y
HAWAII			
Inouye	Y	Y	Y
Matsunaga	?	?	?
IDAHO			
McClure	N	N	Y
Symms	N	N	N
ILLINOIS			
Dixon	Y	Y	Y
Simon	Y	Y	Y
INDIANA			
Coats	N	N	Y
Lugar	Y	Y	Y

	290	291	292
IOWA			
Harkin	Y	Y	Y
Grossley	N	N	Y
KANSAS			
Dole	Y	Y	Y
Kassebaum	Y	N	Y
KENTUCKY			
Ford	Y	Y	Y
McConnell	N	N	Y
LOUISIANA			
Breaux	Y	Y	Y
Johnston	Y	N	Y
MAINE			
Mitchell	Y	Y	Y
Cohen	Y	Y	Y
MARYLAND			
Mikulski	Y	Y	Y
Sarbanes	Y	Y	Y
MASSACHUSETTS			
Kennedy	Y	Y	Y
Kerry	Y	Y	Y
MICHIGAN			
Levin	Y	Y	Y
Riegle	Y	Y	Y
MINNESOTA			
Baschwitz	N	N	Y
Durenberger	Y	Y	Y
MISSISSIPPI			
Cochran	N	N	Y
Lott	N	N	Y
MISSOURI			
Bond	N	N	Y
Danforth	Y	Y	Y
MONTANA			
Baucus	?	?	?
Burns	N	N	Y
NEBRASKA			
Eron	N	Y	Y
Kerrey	Y	Y	Y
NEVADA			
Bryan	Y	Y	Y
Reid	Y	Y	Y

	290	291	292
NEW HAMPSHIRE			
Humphrey	N	N	N
Rudman	Y	Y	Y
NEW JERSEY			
Bradley	Y	Y	Y
Lautenberg	Y	Y	Y
NEW MEXICO			
Biaganan	Y	Y	Y
Domenici	Y	Y	Y
NEW YORK			
Moynihan	Y	Y	Y
D'Amato	N	Y	Y
NORTH CAROLINA			
Sanford	Y	Y	Y
Helms	N	N	N
NORTH DAKOTA			
Burdick	Y	Y	Y
Conrad	N	Y	Y
OHIO			
Glenn	Y	Y	Y
Metzenbaum	Y	Y	Y
OKLAHOMA			
Boren	Y	N	Y
Nickles	N	N	N
OREGON			
Hatfield	Y	Y	Y
Packwood	Y	Y	Y
PENNSYLVANIA			
Heinz	Y	Y	Y
Specter	N	N	Y
RHODE ISLAND			
Pell	Y	Y	Y
Chafee	Y	Y	Y
SOUTH CAROLINA			
Hollings	Y	Y	Y
Thurmond	N	N	Y
SOUTH DAKOTA			
Daschle	Y	Y	Y
Pressler	N	N	Y
TENNESSEE			
Gore	Y	Y	Y
Sasser	Y	Y	Y

KEY

- Y Voted for (yea).
- # Paired for.
- + Announced for.
- N Voted against (nay).
- X Paired against.
- Announced against.
- P Voted "present."
- C Voted "present" to avoid possible conflict of interest.
- ? Did not vote or otherwise make a position known.

Democrats Republicans

	290	291	292
TEXAS			
Bentsen	Y	N	Y
Gramm	N	N	Y
UTAH			
Garn	N	N	N
Hatch	N	N	N
VERMONT			
Leahy	Y	Y	Y
Jeffords	Y	Y	Y
VIRGINIA			
Robb	Y	Y	Y
Warner	N	N	Y
WASHINGTON			
Adams	Y	Y	Y
Gorton	N	N	Y
WEST VIRGINIA			
Byrd	Y	Y	Y
Rockefeller	Y	Y	Y
WISCONSIN			
Kohl	Y	Y	Y
Kasten	N	N	Y
WYOMING			
Simpson	N	N	Y
Wallop	N	N	Y

ND Northern Democrats SD Southern Democrats

Southern states - Ala., Ark., Fla., Ga., Ky., La., Miss., N.C., Okla., S.C., Tenn., Texas, Va.

290. HR 2710. Minimum-Wage Increase/Small Business. Mitchell, D-Maine, motion to table (kill) the Symms, R-Idaho, amendment to provide that Congress shall not increase the business costs for small businesses by enacting legislation that requires additional paperwork, capital expenditures, compliance costs or taxes. Motion agreed to 64-34: R 14-31; D 50-3 (ND 34-2, SD 16-1), Nov. 8, 1989. A "yea" was a vote supporting the president's position.

291. HR 2710. Minimum-Wage Increase/Training Wage. Thurmond, R-S.C., motion to table (kill) the Gramm, R-Texas, amendment to strike the exclusion from the training wage — a temporary subminimum wage that employers could pay to employees aged 16 to 19 — for employers of migrant and seasonal agricultural workers. Motion agreed to 63-35: R 15-30; D 48-5 (ND 36-0, SD 12-5), Nov. 8, 1989. A "yea" was a vote supporting the president's position.

292. HR 2710. Minimum-Wage Increase/Passage. Passage of the bill (thus clearing the measure for the president) to increase the minimum wage from \$3.35 an hour to \$4.25 an hour over two years and to provide for a temporary training wage — equal to 85 percent of the minimum wage — for employees aged 16 to 19. Passed 89-8: R 36-8; D 53-0 (ND 36-0, SD 17-0), Nov. 8, 1989. A "yea" was a vote supporting the president's position.

THE WHITE HOUSE

Office of the Press Secretary

For Immediate Release

June 15, 1996

STATEMENT BY GEORGE STEPHANOPOULOS
ON HEALTH CARE REFORM

Health care reform passed the Senate unanimously without Medical Savings Accounts. The President has been willing to accept an experimental project on Medical Savings Accounts as a means of maintaining bipartisan support for passing health care reform.

Republicans should not end any chance for health care reform by insisting on unconstrained, massive use of Medical Savings Accounts. We should get together and reach a quick agreement and enact bipartisan health care reform for the American people.

-30-30-30-

E: I do. I do. And it's something we care deeply about. It's
the president has called for, and there is no reason why we can't

RUSSERT: Senator Dole also suggested another vote on a constitutional
amendment to balance the budget. Even though we don't balance the budget,
we're going to have a constitutional amendment to mandate we balance the
budget.

Will that vote occur before he leaves?

LOTT: That's his call. I think it very well could. He does have the
right to call it up under a motion to reconsider.

I think we need that. I'm concerned that we won't ever really have a
balanced budget until we have a constitutional amendment that requires it.

RUSSERT: But you do not have the 67 votes you need.

LOTT: We do not at this time.

DASCHLE: You know what -- I've just got to say, if Bob Dole really wanted
a balanced budget, he'd go down to the White House, he'd work with the
president...

LOTT: He went down there for weeks, at the end of the year and the first
of the year.

DASCHLE: The president has an open invitation to sit down with him to get
seven-year balanced budget. He won't do it. This is politics in its rawest

LOTT: Oh, boy.

RUSSERT: Let me turn to another subject. Jack Kemp, a Republican, has
said the Republicans should roll back not only the gasoline tax, but the
Clinton personal income tax; and while they're at it, roll back the George
Bush personal income tax increase.

LOTT: I like it. I voted against both of those tax increases.

RUSSERT: Senator Lott, you like it? It would cost \$600 billion out of
the Treasury over the next seven years.

Do you still like it?

DASCHLE: (LAUGHTER)

LOTT: The way you pay for that is by controlling government spending.

DASCHLE: Oh, Trent. Trent.

LOTT: And if you look at the impact -- look. When you allow people to
keep their money and save it...

DASCHLE: They want it both ways.

LOTT: ... and invest it, and on their children.

RUSSERT: All right, Senator Lott, here's your challenge. Identify the

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tion in savings. What programs, specifically, would you reduce over seven years?

LOTT: I would control spending on every program.

DASCHLE: Ohs, that's a cop-out.

LOTT: If you would just freeze them, it would save billions of dollars?

RUSSET: So, you'd freeze Medicare?

LOTT: Look. I'm not going to get...

RUSSET: Excuse me. You would freeze Medicare?

LOTT: No.

DASCHLE: ... want it both ways.

RUSSET: Would you freeze Social Security?

LOTT: No. But we would control the rate of increase.

RUSSET: So, you've just taken half the budget off the table.

LOTT: You're not going to get me in a position of saying that when you allow people to keep their money that they work for and earn, and not bring it to Washington, that that is bad for the economy.

DASCHLE: Oh, yes.

RUSSET: Ross Perot says promising a tax cut now -- and you're suggesting a \$600 billion reduction in revenues -- is like...

LOTT: Over a seven-year period of time.

RUSSET: ... giving out free.

LOTT: That would be a minimal impact.

DASCHLE: Does the word ``extremism'' sound familiar to you?

LOTT: Yes. Because you all utter it all the time...

DASCHLE: It's true. That is extremism.

LOTT: ... when in fact what you're doing is extremism because you have created a Washington government that has caused problems in people's lives...

DASCHLE: Right.

LOTT: ... and wasted their money...

RUSSET: Senators, let me just finish on this point, because it's really important. Because if you take the federal budget, and you would not cut it, I take it, any more?

LOTT: We have been cutting it for 12 straight years.

Tax Revenues Following 1981 and 1993 Tax Plans

CLAIM: *Spencer Abraham and other prominent Republicans such as Trent Lott and Jack Kemp falsely assert that the 1981 tax cut raised revenue and the 1993 plan did not raise revenue. They claim that tax revenues, after adjusting for inflation, increased 3.8 percent per year from 1981 to 1989, despite the fact that tax rates were cut, while tax revenue increased just 2.3 percent from 1990 to 1995, when the top tax rate increased 50 percent.*

THE FACTS:

Both the notion that the 1981 tax cut raised revenues and the notion that the 1993 tax plan did not raise revenue is clearly factually false according to any reasonable analysis.

Response to Notion #1: The 1981 tax cut resulted in a LOSS of individual income tax revenue, helping to explode the deficit in the 1980s. The revenue increases in the 1980s came from payroll taxes which were raised 6 times.

- **1981 tax cuts cost tax revenue and helped explode the deficit.** After passage of the 1981 supply-side tax cuts, real individual income tax revenue fell for three consecutive years, and did not recover to their 1981 level until 1986. That is, for four entire years after Reagan's 1981 tax cut, real individual income tax revenue were below their 1981 level, even though it was in the middle of an economic recovery. [Source: Department of the Treasury, (tax revenue adjusted to 1995 CPI dollars.)]
- **Individual tax revenues grew rapidly after 1986 tax reform.** From 1981 to 1989, individual income tax revenue grew 1.7 percent annually -- not 3.8 percent -- but even this is misleading. From Reagan's 1981 tax cut to the tax reform of 1986, real individual income tax revenues grew just 0.2 percent per year. After tax reform -- from 1986-1989 -- they grew 4.1 percent per year.
- **During the 1980s, the Social Security payroll tax rate increased 6 times.** To the degree that overall tax revenues went up faster, it was due to increases in the Social Security payroll tax rate in 1981, 1982, 1984, 1985, 1986, and 1988 which increased Social Security tax revenues at a rate of 4.7 percent per year from 1981 to 1989. Therefore, revenues went up 3.8 percent per year because of real payroll tax revenues; individual income tax revenues rose just 0.2 percent annually from 1981 to 1986 and 4.1 percent per year from 1986 to 1989.
- **1981 Tax Cuts helped explode the deficit.** This loss in tax revenue helped explode the deficit: in Ronald Reagan's first three years in office -- when the Republicans controlled both the White House and the Senate -- the deficit nearly tripled, increasing from \$74 billion in FY80 to \$208 billion in FY83. By FY 86, the deficit had increased \$221 billion. [Source: CBO]

Response to Notion #2: First of all, they are looking at 1990 to 1995 data to refute the President's 1993 Economic Plan. Let's look at what's happened since the 1993 plan took effect: **Inflation-adjusted individual income tax revenues have increased 4.8 percent annually since the 1993 plan.** According to both the Congressional Budget Office and H&R Block, the 1993 Economic Plan did not raise income tax revenue from 98.8 percent of working families -- it only raised rates on the top 1.2 percent. A small amount of the increase in revenue -- about \$4 billion a year -- comes from the wealthiest top 13 percent of social security beneficiaries. [Source: "H&R Block Analysis of the Income Tax Consequences of the Revenue Reconciliation Bill of 1993," August 1993; and "GOP Tax Issue May Fade Away: Only 1.2% Of Filers Will Face Increase, CBO Study Finds," *Washington Post*, 1/13/94.]

- **President Clinton's 1993 Economic Plan has worked and has cut the deficit in half.** Since President Clinton took office, CBO projects that the deficit will be cut in half, dropping from \$290 billion in FY 92 to about \$130 billion in FY96. [Source: CBO, 5/96]

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Inflation-Adjusted Tax Revenues (in millions)

Year	Total Revenue	Individual Income Tax Revenue	Corporate Revenue	Social Insurance Tax Revenue
1981	\$1,005	\$479	\$102	\$306
1982	\$976	\$470	\$78	\$318
1983	\$919	\$442	\$57	\$320
1984	\$978	\$438	\$83	\$351
1985	\$1,040	\$474	\$87	\$376
1986	\$1,069	\$485	\$88	\$395
1987	\$1,146	\$527	\$113	\$407
1988	\$1,171	\$517	\$122	\$431
1989	\$1,218	\$548	\$127	\$442
1990	\$1,203	\$544	\$109	\$443
1991	\$1,180	\$523	\$110	\$443
1992	\$1,185	\$517	\$109	\$449
1993	\$1,217	\$538	\$124	\$452
1994	\$1,293	\$558	\$144	\$475
1995	\$1,351	\$590	\$157	\$485

Average Annual Growth:

1981-84	-0.9%	-3.0%	-6.6%	4.7%
1981-89	2.4%	1.7%	2.7%	4.7%
1982-89	3.2%	2.2%	7.3%	4.8%
1983-89	4.8%	3.6%	14.4%	5.5%
1981-86	1.3%	0.2%	-3.0%	5.2%
1986-89	4.4%	4.1%	13.1%	3.8%
1990-95	2.3%	1.6%	7.6%	1.8%
1992-95	4.5%	4.5%	13.0%	2.5%
1993-95	5.4%	4.8%	12.6%	3.6%

Source: Department of Treasury, adjusted to 1995 CPI dollars.

January 17, 1997

MEMORANDUM FOR GENE SPERLING

FROM: PAUL DIMOND

SUBJECT: PROCESS, STRATEGY, ROLL-OUT FOR SKILL GRANTS

Key Charge to Working Group: Achieve Federal Skill Grants. Attached is the list of questions that the Working Group should answer over the next month. I recommend that you make clear the key charge to the Working Group: *craft a proposal for a Presidential announcement no later than February 20 that will provide a platform for achieving federal Skill Grants for working families as a part of the Balanced Budget Reconciliation negotiations.* All other policy, administrative, and political issues can fall into place if you give this charge to the Working Group on behalf of the President. In contrast, if this clear charge is not given to the Working Group, you run the risk that the Working Group will just end up relitigating the relative merits, priorities and relationships between (1) federal skill grants, (2) consolidation of DoL/DoEd youth and adult training programs, (3) devolution, (4) private sector involvement, (5) DoL training/mayor vs DoEd vocational constituency politics, (6) DoL protection of ETA personnel and the role of the Labor Department, (7) how all this fits with the clamor of governors to use all of the DoL money to help pay for welfare reform, and (8) the best way to "manage" a "workforce development system," "reemployment system," "unemployment system," "labor market exchange," and/or "education and training system" in each local labor and education and training market around the country. Such an open-ended inquiry will consume too much time, and it very may lead to options and arguments that once again compromise the President's key priority of federal Skill Grants.

Second Key Charge to Working Group: Present Options for Federal Skill Grants that complement Pell Grants, Hope Scholarships, and Student Loans. To make the President's announcement credible, the options must operate so that all federal support for post-secondary education and training to individuals is complementary. From the perspectives of the individual and the provider, Skill Grants, Pell Grants, Hope Scholarships, and Student Loans (including "Pay-As-You-Earn" options) must work as a complementary package of assistance that can be (1) easily understood by students, workers, and families and (2) easily explained and administered by the financial aid officer of the provider at which the individual may choose to enroll. In addition, the "gate-keeping" must be complementary in order to assure a flow of useful information from the providers, to prevent provider rip-offs and to minimize student defaults, and to exclude fraudulent or incompetent providers from eligibility for federal financial aid. The two basic options for Skill Grants will be (a) amending Pell Grants (e.g., "prospective income" for dislocated workers and "non-degree training") or (b) creating a complementary DoL Skill Grant for dislocated workers and non-degree training for workers.

Third Key Charge to Working Group: Present Options for Achieving Federal Skill

Grants in Budget Reconciliation. In my opinion, it is absolutely essential to make the case for achieving federal Skill Grants (like the changes to Pell Grants) in Budget Reconciliation. This will change the entire dynamic for congressional enactment of Skill Grants -- both in achieving federal Skill Grants in the balanced budget negotiation and, even failing to achieve agreement there, in any authorizing legislation: it is the best way for the President to make his case for his chief priority. *Bob Shireman believes that the new terms for Skill Grants (and Pell Grants) can be set in Budget Reconciliation in compliance with the Byrd rule by assuring that these terms apply full force to Student Loans as well.* If this is right, then the combined package will have a direct impact on mandatory spending and can be included in Budget Reconciliation, even if the decision is made to put Skill Grants (and Pell Grants) on the discretionary side of the budget.

For the many reasons that I have argued over the past several months, I also believe that you should present an *option* to the President that will permit him to negotiate for making Pell Grants and Skill Grants mandatory as a part of the Balanced Budget negotiations. This will provide the President with a better platform to catalyze -- and to stake a claim of credit for -- a new ethic among the people, in the states, and with firms throughout the country to support universal access to two years of college and, thereafter, to post-secondary education and training. *It is absolutely vital, however, that you know in advance that the alternative option of putting federal Skill Grants and Pell Grants on the discretionary side can be nevertheless be negotiated as a part of Budget Reconciliation.*

Presidential roll-out. First, in the State of the Union Address, the President should hit hard on individual skill grants for "unemployed and underemployed" workers as an integral component of his package of proposals to increase federal support for empowering all Americans to benefit from two years of college and to invest in the post-secondary education and training they choose. This speech should make clear that a major announcement of the specific proposal will follow.

Second, in late February the President should announce the specific proposal for federal Skill Grants, including how they complement and work with Hope Scholarships, Pell Grants and Student Loans to form one comprehensive package of federal financial aid -- e.g., Hope Scholarships, Hope Grants, and Hope Loans. In this speech, the President should make clear that the entire package must be included as a part of any Balanced Budget Reconciliation Agreement. Organized labor; leading representatives of business; community colleges, four-year colleges, and proprietary schools; and mayors and county execs will all announce their full support on the same day for achieving the entire package as part of a Balanced Budget Agreement. Once again, Kennedy, Breaux, Daschle, and Lieberman should signal their full support; and From and Kemp should provide a call for bi-partisan support. The President can follow up with a speech to a major constituency group in March.

Third, in early April the President will receive the Harry S. Truman award from the Association of Community Colleges for his contributions to advancing lifelong learning in America. The President in his acceptance speech can draw the symbolic parallel between (1) his entire package for guaranteeing increased federal support for access to post-secondary education and training for all Americans and (2) the G.I. Bill of Rights that provided the

impetus for opening college and job training to almost 7 million veterans of WWII and the Korean War.

Once negotiations begin in earnest on the Balanced Budget, the President will have made clear his commitment to achieving the entire package, including federal Skill Grants. He will also have established such a broad base of bi-partisan support throughout the country and with all major constituency groups that this Congress will at least accept, if not embrace, the entire package as a part of the final Balanced Budget Reconciliation agreement.

If the President chooses not to include the federal Skill Grants in the final package negotiated in Budget Reconciliation for any reason, he will still have built the largest base of support possible for assuring that individual skill grants -- whether federal or state-designed -- emerge from any authorizing legislation for working families. Making this case is also absolutely vital to counterbalance the pressure from governors on the Congress to devolve all DoL training dollars to the States so that the governors use the money for welfare reform. [We should, of course, be pressuring the governors to support the WTW Jobs Challenge in Budget Reconciliation instead: this is means for providing additional support to make the welfare reform transition work in local labor markets; to make this request credible, however, we ought to be agreeing to make the governors are co-signers of any application along with the mayors. A poverty (or welfare) concentration formula is a better means for targeting the resources on local areas that need the most help than reserving money exclusively for mayors in the largest 100 largest cities.]

THE WHITE HOUSE
WASHINGTON

July 17, 1996

MEMORANDUM FOR LAURA TYSON, GENE SPERLING, AND DAN TARULLO

FROM: LAEL BRAINARD *LS*

SUBJECT: Background for Sweatshops Meeting

This memorandum provides general--and preliminary--background for the meeting. Labor has not yet sent over their options paper and USTR has not completed analysis of the international implications.

Labor is developing two options. The first is an industry-led labelling initiative. The second couples the labelling initiative with legislation to hold retailers and manufacturers responsible for their subcontractors' labor practices and to provide a safe harbor to companies that put monitoring programs in place. Both are described in the attached preliminary paper from Labor.

Industry Labelling Initiative

The President would call on industry leaders to develop and implement a "No Sweat" label attesting that a garment was made in accordance with U.S. laws (or some other standard in the case of imports). There are several advantages to this approach: it would leverage stretched Labor Department enforcement resources; consumers appear to care about this issue; and it could be implemented through a partnership with the private sector rather than a legislative mandate. Many apparel retailers and manufacturers might welcome this initiative as a way of "insuring" themselves against the unfavorable publicity that results when subcontractor violations (of which they are unaware) are exposed. However--and this is a big caveat--we do not know how much support would be forthcoming. Moreover, there is a risk that the initiative could backfire if the label loses credibility because enforcement and monitoring mechanisms prove inadequate.

As long as the initiative is purely voluntary and not led or implemented by the government, this approach is likely to escape a WTO challenge. However, the industry might encounter difficulties in developing standards that do not discriminate against imports. (Acceptable standards might include a prohibition of child, forced, and prison labor and enforcement of national wage and hour laws). In addition, it is important to ensure that foreign firms are included in the standard-setting process because we are currently arguing for the inclusion of U.S. firms in European eco-labelling standard-setting processes. In addition, monitoring and enforcement are likely to prove particularly difficult for imports.

Apparel Responsibility Act

Option 2 would couple the voluntary labelling initiative with legislation that would extend liability to apparel manufacturers and retailers for violations of the Fair Labor Standards Act (FLSA) by their subcontractors. It would also provide a carrot by offering a "safe harbor" from liability to those companies that put in place effective, verifiable monitoring programs.

Such an initiative would be favored by UNITE, which is working with Representative Clay and Senator Kennedy on similar legislation. However, a legislated approach risks alienating business leaders that might otherwise support the voluntary labelling initiative. Indeed, avoiding such legislation might provide a powerful impetus in favor of the voluntary labelling initiative.

As long as this initiative applies only to domestic production and enforcement of domestic labor laws, there would be no WTO implications. Any extension to imports would risk a WTO challenge.

Legislative Proposals on Child Labor Imports

There are a variety of related legislative initiatives that members have introduced or plan to introduce.

- Miller is drafting legislation that would mandate a labor standards label on domestic and imported products.
- Harkin is drafting legislation requiring child labor labelling on garments and sporting goods.
- Harkin and Frank have introduced legislation that could ban the import of products made with child labor.
- The Families First Agenda includes a provision to ban imports made with child labor (see attached language), and this issue was raised in discussions on the Democratic platform.
- Last Monday, Reich testified on legislation sponsored by Smith, Hyde, Ros-Lehtinen, Lantos, Joe Kennedy, and Moran, that would ban child labor imports and cut off foreign assistance to countries that fail to enforce child labor laws.

Although it is unlikely that any of these initiatives will move far enough on the Hill this year to require a public Administration position, it might be useful to bring the general issue to the attention of Principals, since they may face questions on this topic. Most of these legislative proposals could provoke a serious WTO challenge and would almost certainly undermine our efforts to establish a WTO working party on labor standards.

Attachments

LATEL BEXIMARIS Rm 330

GARMENT INITIATIVE: Two-Part Plan

Background

America's garment industry today grosses more than \$45 billion annually and employs over one million workers. Garment manufacturers purchase material from and contract work with some 22,000 sewing contractors. A substantial number of these contractors, perhaps close to half, fail to pay the minimum wage, and over two-thirds do not pay overtime as required by the Fair Labor Standards Act (FLSA).

The Department of Labor (DOL) has less than 800 investigators to protect the rights of not only the one million garment workers, but 110 million other employees in 6.5 million workplaces outside the garment industry. Clearly, enforcement alone cannot end the worker abuses in the garment industry. DOL has embarked on a three-part strategy to correct these abuses:

- 1) *Enforcement.* Major sweeps of garment centers by Wage and Hour investigators; notifying manufacturers about the "hot goods" provision of the FLSA, which prohibits the shipment of goods made in violation of the Act.
- 2) *Recognition.* Praising retailers and manufacturers that monitor their contractors.
- 3) *Education.* A garment public service announcement campaign to provide information to consumers interested in helping to combat sweatshops. "Clues for Consumers" have been distributed to more than 50 million supporters of DOL's sweatshop eradication initiative.

Part I: INDUSTRY-ESTABLISHED LABEL

WHAT

The President could call on the garment industry to join the fight against sweatshops by establishing a label which would attest that the garment was made in accordance with acceptable labor standards--with a serious inspection/enforcement mechanism (industry-controlled) behind the label. The labeling initiative would be industry-led and manufacturer/retailer participation would be voluntary. A group of industry, labor and consumer leaders (a.k.a., the "Label Leaders") would announce the labeling initiative at a gathering which would be addressed by the President. The President would challenge the industry to develop its (nongovernmental) labeling proposal within 6 months. The label would be for garments made by American firms both domestically and internationally.

WHY

Critics of sweatshop eradication efforts argue that "sweat-free" garments will be more expensive. A survey by Marymount University, however, found that an overwhelming majority (81 percent) of consumers will pay more for non-sweatshop garments. Determining which garments are "sweat-free," however, is not easy. A label (as described above) sewn into a garment would send a very clear message to consumers and allow them to help eradicate sweatshops, both domestically and abroad--provided the label was accompanied by serious monitoring and enforcement.

An industry-driven effort would be a logical next step in our efforts to eliminate sweatshop conditions in the garment industry. A commitment by the industry to police itself would ensure long-term change in the apparel sector. As government shrinks, we need to rely on greater private sector efforts to supplement DOL enforcement.

WHO

The "Label Leaders" would determine the composition of the group that would develop the label. It could, for example, include the following:

- CEO's from four to six recognizable retail and manufacturing firms. Some possibilities include: Marvin Traub, retired CEO of Federated; Stanley Marcus, retired CEO of Neiman Marcus; and Bud Konheim, CEO, Nicole Miller.
- Union representation, e.g., Jay Mazur (President, UNITE)
- Consumer/Non-governmental organization (NGO) representation

Again, the membership would be determined by the "Label Leaders," not the government.

HOW

This would be industry/labor/consumer/NGO driven, capitalizing on existing industry interest in establishing a label. The group would develop the label, communicating with the President and the Secretary to keep them informed--not to provide advice. We hope at least one or two "drivers" among the group would feel sufficient ownership in the process to keep it moving.

NOTE: We have proposed this structure to avoid both Federal Advisory Committee Act (FACA) and international trade issues. Alternately, the President could establish an official advisory group to devise a labeling proposal. It would then be necessary to comply with all the FACA requirements.

- Secretary Reich would be in regular contact with the group to keep updated on their progress; DOL would offer to provide ongoing advice and assistance.
- As noted above, the President would challenge the group to get back to him with a labeling proposal within 6 months. --

NOTE: Both Senator Tom Harkin and Representative George Miller intend in the next several weeks to introduce legislation to establish labeling programs. Harkin's is limited to a label attesting garments were made without child labor. Miller's proposal is broader; it will probably cover both domestic and international production, and a full range of labor standards. We will need to determine how these Congressional efforts would interact with a Presidential announcement.

Part II: "APPAREL RESPONSIBILITY ACT"

In addition to calling for the voluntary industry-developed label, the President could also make one of the following announcements:

- (1) He or the Secretary will send forward the "Apparel Responsibility Act"; or
- (2) He supports the efforts of members of Congress who are introducing such an Act.

WHAT

A legislative proposal to enhance our ability to hold retailers and manufacturers responsible for selling or producing clothes made in sweatshops, while at the same time rewarding firms that take affirmative steps to ensure that workers are not exploited.

WHY

The two biggest problems we face in policing the garment industry are 1) inadequate enforcement resources--800 inspectors for 22,000 contractors; and 2) lack of accountability among retailers and manufacturers, who take little responsibility for the conditions under which their goods are produced.

HOW

The legislation would address both problems by combining a carrot and a stick. It would extend liability to garment manufacturers and retailers for violations of the Fair Labor Standards Act by their garment contractors, while offering a "safe harbor" from the extended liability for firms that have in place effective, verifiable monitoring programs. This would give firms a real incentive to implement such monitoring.

OPTIONS

UNITE has been working on legislation similar to this proposal for several months with Representative Bill Clay and, more recently, Senator Ted Kennedy. Recently, we have been working with them in an effort to ensure that the legislation includes effective incentives for manufacturers and retailers to take responsibility for the conditions under which their clothes are made.

- (1) The President or the Secretary can send the bill forward, and so indicate at the meeting on the industry-led labeling;
- (2) The Administration can express its support for the bill, but have the legislation originate with Kennedy and Clay.

FAMILIES FIRST AGENDA

I. SECURITY

A. PAYCHECK SECURITY

- Fair Pay
- Expanding Child & Dependent Care Tax Credit
- Banning Imports Made with Child Labor

B. HEALTH CARE SECURITY

- Making Kids Coverage More Available & Affordable

C. RETIREMENT SECURITY

- Pension Reform Initiative (Clinton Bill & Women's Pension Protection)

D. PERSONAL SECURITY

- Crime Initiative (COPS Phase II/After-School Safe Havens/Drug Enforcement & Prevention)

II. OPPORTUNITY

A. EDUCATIONAL OPPORTUNITY

- HOPE Scholarships & Tax Deductions for Education & Training

B. ECONOMIC OPPORTUNITY

- Small Business Initiative
- State Infrastructure Banks

III. RESPONSIBILITY

A. GOVERNMENTAL RESPONSIBILITY

- Balanced Federal Budget

B. INDIVIDUAL RESPONSIBILITY

- Welfare Reform & "Deadbeat Parents"
- Teen Pregnancy

C. CORPORATE RESPONSIBILITY

- Better Protecting Pensions
- Requiring Environmental Responsibility
- Repealing Tax Break That Encourages Companies to Move Jobs Overseas

could now receive a maximum credit of \$900 a year. Hence, the impact of this proposal would be to almost double their tax credit for child care.

Thirdly, the proposal would make the dependent care tax credit refundable. The credit is currently non-refundable.

This proposal recognizes that good day care is an essential component of our children's development into productive citizens. In addition, more affordable day care could help serve the "latchkey kid" population that is currently often left for hours in the afternoon with no adult supervision.

3) BAN IMPORTS MADE WITH CHILD LABOR

In this new, highly competitive, global economy, American workers are prepared for fair competition from their counterparts around the world. However, American workers should not be asked to compete with child labor from abroad.

Hence, the Families First Agenda contains a proposal to ban the importing into the United States of products made with child labor.

The vast majority of countries in the world today – including such countries as India, China, and Guatemala – do have at least some laws imposing restrictions on the use of child labor. The chief problem has been not the absence of any child labor laws whatsoever – but rather the lax enforcement of these child labor laws in many countries around the globe.

Hence, under this Democratic proposal, in order to import into the United States, importers of record would be required to certify to the Customs Service that the products they are importing are not produced in violation of the particular country's child labor laws. (Competitors could then bring a complaint to the Customs Service if they had reason to believe that this certification was false.)

Secondly, this proposal would call on countries around the world to beef up enforcement of their existing child labor laws. It would also call for the upward harmonization of all countries' child labor standards over time. Under the proposal, the United States would be required to use its voice and vote in international organizations to push for enhanced child labor protections.

MEMO

October 31, 1995

Memo to Gene Sperling

From Office of the Chief Economist, DOL ^{LMC} ~~9/11/1~~

RE: Labor Market Experience of African Americans

Historically, African American Unemployment rates are twice the rates of whites:

- For September, 1995, the unemployment rates of African American men and women exceed 9%, while the unemployment rates of white men and women just exceeded 4.0%.
- For September, 1995, the unemployment rates of African American teenage males and females (ages 16 to 19) both exceeded 30%. These rates are double the unemployment rates of white teenagers.

The Growing Importance of a College Degree has hurt the labor market prospects of black men:

- In 1979, college educated men earned 40% more than the average high school graduate. In 1993, the additional earnings associated with a college degree expanded to 89%.
- Since 1970, the fraction of black men with at least a college degree has increased from 4% to 12%, while the fraction of white men increased from 14 to 26%.

Persistent and Expanding Racial Earnings Gaps:

- In 1967, the median year-round, full-time African American male earned 65% as much as the median white male. Today, the median African American male earns 76% as much as the median white male, ~~and the median African American female earns 87% as much as the median white female.~~
- During the 1970s, the average African American male with a college degree was at earnings parity with the average white college graduate male. By the end of the 1980s, the college graduate African American male earned 83% of the white college graduate male (Bound and Freeman, 1994).
- In 1994, the overall poverty rates were 30.6 for African Americans and 11.7% for whites. Over 49.1% of African American children under 6 lived under the poverty level, while only 19.0% of white children did so.

Occupational Achievement:

- In 1994, 8% of African American men were employed in executive, administrative and managerial occupations. Almost 15% of white men were employed in these occupations.

- The Glass Ceiling Commission found that only .6% of senior management positions in Fortune 1000 industrial and Fortune 500 service industries are African American.

The EITC, minimum wage, investment in education, and a strong economy can help to narrow the earnings gap:

- In 1994, the EITC brought over 350,000 African Americans out of poverty.
- Over 1.3 million African Americans would get a pay raise if the minimum wage is increased to \$5.15 per hour.
- In 1994, 36% of 18 to 24 year old African American high school graduates were enrolled in college, as compared to 43% of white high school graduates.
- From 1993 to 1994, the employment rates of African Americans improved more rapidly than whites. The rates jumped 1.8 percentage points, the first significant increases since the late 1980s.
- From 1993 to 1994, African American households were the only race or ethnic group to experience an increase in real median income. Their income rose from \$20,032 to \$21,027, the first increase since 1988.

57.6

NEECE, CATOR, MCGAHEY & ASSOCIATES, INC.

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WASHINGTON, DC 20036-5503
(202) 887-5599
FAX (202) 223-8608

December 4, 1995

TO: Gene Sperling

FROM: Rick McGahey

SUBJECT: Recommendation on my appointment to Labor Department advisory council

I'm under consideration for appointment to an uncompensated Labor Department advisory council on ERISA and pensions; the appointments are made by Secretary Reich, although they are of course discussing this with the White House. If there's anything you could do to give me a recommendation, I'd appreciate it.

The council is the ERISA Advisory Council for Employee Welfare and Pension Benefit Plans, with five members appointed each year, starting on November 1, by the Secretary of Labor for three-year terms. My name has been submitted by Senator Kennedy, Congressman Obey, and Minority Leader Gephardt, and I'm told that I'm on a short list going "back and forth" between the White House and Labor. (Appointments to the Council must be balanced in terms of party representation and various sectors of the pension community, so fine tuning a final list takes some doing.)

The contact in the White House personnel office is Liz Martinez, at 456-5260, in 154 OEOB. At Labor, the main contact is Oelana Berg, the Assistant Secretary for Pension and Welfare Benefits, at 219-8233; the personnel contact is Richard Saccarides.

If there's anything you can do, I'd appreciate it. Thanks a lot.

From: Kenneth S. Apfel on 03/21/97 10:54:56 AM

Record Type: Record

To: Gene B. Sperling/OPD/EOP

cc: Anne H. Lewis/OPD/EOP

Subject: Meeting with Labor and letter from the House D's

In response to their request, we met yesterday with representatives of organized labor to respond to their concerns about the Administration's job training reform policy. Attending the meeting were representatives of the AFL-CIO, AFSCME, UAW, Steelworkers, and Machinists unions. The unions' two major concerns were:

Retaining a separately funded dislocated worker program. The unions are concerned that Governors, given discretion over the use of Federal job training funds, will use them to finance welfare reform implementation. They want the Administration to support earmarked funding for dislocated workers to ensure this does not happen. The unions point out that the President's May 20th letter to the CAREERS conferees advocated earmarked funding for dislocated workers; they wanted assurances that the Administration has not waived from this position.

They don't like Skill grants. The unions prefer the existing JTPA system of training contracts. They play a key role as training providers in that contracting system. If there are to be skill grants, they will be much more comfortable if they are tied to the current job training infrastructure.

Training-related services. Unions worry that all of JTPA's \$2.4 billion adult program funds would finance vouchers, with no funds remaining for JTPA's current nontraining activities. Unions view these services -- such as job search, counseling, and support services -- as essential services and part of the training "infrastructure."

We explained that the Administration never has proposed to do away with funding for these job-related services. The G.I. Bill proposes a State grant for job-related services, and a Secretary's reserve for mass layoff grants. However, they fear that splitting out classroom training for vouchers is much more difficult than we think and could well lead to loss of local provider control over the non-training funds.

Clay-Kildee letter: I just receive a copy of letter from the House Democratic leadership on the Committee on Education and the Workforce to the POTUS that echoes some of Labor's sentiments, but is more supportive of skill grants if appropriate protections are provided. I will fax you a copy of the letter.

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COMMITTEE ON EDUCATION
 AND THE WORKFORCE
 U.S. HOUSE OF REPRESENTATIVES

2101 RAYBURN HOUSE OFFICE BUILDING
 WASHINGTON, DC 20515-6100

March 19, 1997

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 DENNIS J. KUCINSKI, OHIO

MAJORITY—(202) 225-4271
 (TTY)—(202) 225-6272
 MINORITY—(202) 225-5725
 (TTY)—(202) 225-5118

The President
 The White House
 Washington, DC 20500

Dear Mr. President:

We are writing to share with you our views regarding the prospects of job training reform legislation in this session of Congress. We remain committed to the priorities outlined in your May 20, 1996 letter to the Conferees on H.R. 1617. We are optimistic that with your active involvement we can achieve positive bipartisan reform in this session of Congress.

The Subcommittee on Postsecondary Education, Training and Life-Long Learning has held several hearings on the issue, and Subcommittee Chairman, Representative Buck McKeon, has indicated a desire to hold a Subcommittee markup on job training reform legislation in the middle of April.

Although legislative language is not yet available, the Republican leadership on the Committee has indicated a willingness to address those issues that you outlined as priorities last year. For example, the legislation will not abolish the School-to-Work Opportunities Act, and we are working with the Republicans to guarantee a strong role for local government and local workforce development boards. We also intend to continue to work with Committee Republicans to ensure the integrity of the public employment service and the public labor exchange services established by the Wagner-Peyser Act.

Many Democratic Members remain skeptical about the advisability of requiring that all training services be provided through skill grants or vouchers. We believe, however, that most of our members could support this approach so long as the exceptions provided in last year's legislation are included, and the Job Training Partnership Act's infrastructure is retained to provide counseling and support services to individuals seeking assistance as well as accountability to taxpayers. Significant changes in this area would seriously jeopardize the prospects for job training reform.

We also believe that the bill must earmark funding to meet the needs of dislocated workers. The passage of welfare reform legislation makes this requirement even more necessary than when you identified it as a bottom-line issue last year. We were encouraged by your August '96 Principles for a Welfare to Work Jobs Challenge and believe that the initiative and its resources should be administered through the new workforce development system. We hope to continue to work with you on these issues.

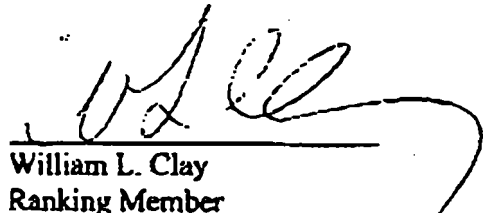
The prospects appear to be very good for bipartisan job training and education reform legislation that includes key principals of your G.I. Bill for American Workers. We urge you to work with us to make certain that the legislation addresses the issues you outlined last year.

Thank you for your consistent leadership on this and other issues.

Respectfully,



Dale E. Kildee
Ranking Member
Subcommittee on Postsecondary
Education, Training, and
Life-long Learning



William L. Clay
Ranking Member
Committee on Education and
the Workforce

MEMORANDUM

**TO: JOHN PODESTA
GENE SPERLING**

FROM: ANNE LEWIS

RE: BRIEFING MATERIAL FOR AFL CIO CONVENTION

DATE: SEPTEMBER 23, 1997

Attached please find the briefing material that I provided to Staff Secretary for the President's appearance at the AFL-CIO convention. While similar to the package I prepared for the Vice President, this package reflects some very recent developments.

LABOR ISSUES BRIEFING

September 23, 1997

WELFARE REFORM

Fair Labor Standards Act/Minimum Wage: As you know, this summer we worked with the labor unions in a successful effort to defeat Republican legislation that would have weakened labor protections for welfare recipients in workfare programs. The dispute began in May when the Department of Labor issued its legal opinion that labor protections in current law -- including the minimum wage, health and safety laws, and anti-discrimination protections. Governors of both parties argued strongly that this would make workfare prohibitively expensive and create excessive administrative burdens on states. They worked with Republicans on proposals to limit the application of labor laws, as well as to reduce the welfare law's work requirements to make it easier for states to comply.

Governors also objected loudly to having to pay payroll taxes for those on workfare, even though the Treasury Department has not yet ruled on whether FICA and FUTA taxes apply. (The Balanced Budget Act made them ineligible for the EITC, with our support.) The FICA/FUTA exemption is the only issue where we have indicated any willingness to compromise. In fact, we agreed to such an exemption as part of a last-minute compromise that fell apart for other reasons.

Since the signing of the Balanced Budget Act, the Republican leadership has called this a top priority for the remaining weeks of the session. In August, Speaker Gingrich said "the Clinton Administration, working with the unions and the bureaucrats, is trying to undermine and destroy welfare reform." Many Governors, including Carper and Chiles, remain very unhappy about our position on this issue.

Current Status: House Ways and Means Human Resources Subcommittee Chairman Clay Shaw is quietly trying to garner bipartisan support among Governors and House members for a bill to address state concerns. Shaw originally planned to unveil legislation last week, but problems with the Republican caucus have sent him back to the drawing board. He apparently plans to move the measure as a separate piece of legislation.

A confidential draft that Shaw circulated last week has two major problems. First, it appears to weaken labor protections. Although Shaw has stated that it is not his intention to weaken labor protections, other Republicans may insist that these provisions remain in the bill and may try to add more anti-union provisions. Our preliminary understanding is that the unions very much dislike the draft bill.

Second, Shaw's draft bill significantly weakens the welfare law's work requirements. It requires states to pay the minimum wage for work experience and community service programs, but it limits the number of work hours to what states can afford to pay, based on the amount of their welfare grant plus food stamps. The balance of a recipients' time could be spent on job search and education activities. Thus, a welfare recipient could work 10 hours a week and do 10 hours

of job search. Also, there is a concern that the legislation's definition of "work experience" and "community service" may be so broad that nearly all subsidized work could be defined as such, allowing low benefit states to require less than 20 hours of work from nearly all their "working" recipients. The bill would also exempt workfare positions from FICA and unemployment taxes, which we indicated during the balanced budget negotiations that we were willing to do.

Privatization of Welfare Programs: Labor unions, particularly AFSCME and SEIU, have waged a major fight against state efforts to privatize their welfare, food stamp, and Medicaid functions. Last year's welfare law allowed states to privatize the TANF welfare program without federal approval, and some are moving to do so (Wisconsin, for example). However, states can privatize food stamps and Medicaid only with permission from the federal government.

After the Administration denied the state of Texas' request to privatize food stamp and Medicaid earlier this year, the Republicans launched an effort to overturn this decision through legislation. As part of negotiations for the balanced budget agreement, we agreed to a provision allowing Texas to privatize its Medicaid and food stamp provisions in part of the state. In the end, however, Governor Bush rejected this compromise approach, and the legislation did not allow for any privatization.

Current Status: In contrast to the workfare fight, the Republicans have not resurrected the privatization issue so far this fall.

The Administration has requests pending from Arizona and Wisconsin to privatize food stamp and Medicaid functions. The Department of Agriculture is required by law to take some action by October 3 on the Arizona request, which affects less than 20% of the state. We are discussing how to respond. There is no such deadline for Wisconsin.

Welfare to Work: DOL has released \$1.1 billion in welfare to work formula and competitive grants thus beginning implementation of the \$3 billion Welfare to Work program we won in the Balanced Budget Agreement. The grants aim to create job opportunities for the hardest to employ welfare recipients.

PROCUREMENT REFORM

Background: On February 18, 1997, the Vice President announced to the AFL-CIO new initiatives (1) to deny federal contracts to companies with an unsatisfactory record of labor relations and (2) to prevent contractors from receiving reimbursement from the federal government for money spent defending against unfair labor practice charges and opposing union representation. He also announced that you would issue an Executive Order encouraging federal

agencies to consider using project labor agreements in their construction.

We prepared the Project Labor Agreement order first. When a draft leaked, Senate Republican leaders held Alexis Herman's nomination based on their objections. Ultimately, we negotiated a compromise whereby we issued essentially the same Executive Order as a Presidential Memorandum.

On the contracting responsibility proposal, we received objections from Senator Lott, Congressmen Hoekstra and Fawell, and industry groups, as well as a separate objection from 10 House leaders. A key issue regarding that proposal is how to determine if a contractor has a satisfactory record of labor relations -- whether the determination should turn on adjudicated violations of the labor laws, alleged violations, or a more general assessment of employee relations.

In the aftermath of the PLA experience, based on discussions involving, among others, the staffs of Senators Kennedy and Daschle, the AFL-CIO, and the White House, the drafting process was put on hold while we considered the appropriate standard. Based on recent discussions, we expect shortly to produce proposed regulations that do not take the broadest approach.

In addition, on an entirely different track, Congressman Evans and Senator Durbin have introduced legislation that would debar federal contractors for violations of the NLRA or OSHA provisions. The Administration has not taken a position on this legislation.

Talking Points: The Vice President announced on February 18, 1997 that we would act to encourage federal agencies to consider project labor agreements on federal construction projects. After a great deal of give and take with Congress, we issued a memorandum on June 5 directing all federal agencies to do just that. I am proud that of this sensible improvement in government contracting, which recognizes the efficiencies organized labor can offer.

Vice President Gore also announced in February that we would propose new initiatives to deny reimbursement of money spent by federal contractors in defending against unfair labor practice charges and seeking to influence union representation votes. And we suggested that in determining whether a company bidding for government contracts is a responsible contractor, we consider its record of labor relations and employment practices.

We are continuing to work on these proposals, to craft something that is fair, practical, and able to withstand the assault we can expect from Republicans in Congress. We hope to be presenting these proposals shortly.

EDUCATION & TRAINING

Vouchers: The AFL-CIO opposes efforts in Congress to promote vouchers for private schools. The Administration has threatened to veto both (1) the Coverdell amendment, which would allow penalty-free withdrawals from IRAs for education expenses; and (2) a voucher plan in the D.C. Appropriations bill.

Standards & Testing: The American Federation of Teachers (part of the AFL-CIO) has been a strong supporter of the standards effort, and of the national tests in reading and math. (The tests were dealt a blow in the House, but a deal was struck in the Senate. The issue will be settled in Conference, and may result in a veto).

Job Training: The Administration is making progress on its agenda to reform job training programs by empowering workers with Skill Grants. The House passed its version of reform legislation earlier this year and Senators Jeffords and Kennedy have just introduced a bill which incorporates many of the principles of the President's GI Bill for America's Workers.

SAFETY AND HEALTH

OSHA Funding: The Administration requested a 6% increase in funding for Fiscal Year 1998. House and Senate-passed appropriations bills reduced the increase to 3%, or \$11 million over the FY 1997 spending level. We have consistently fought significant budget cuts.

OSHA Enforcement: As part of OSHA's reinvention efforts, the Agency has placed greater emphasis on compliance and less on enforcement. The AFL CIO was very critical of the resulting decline in inspections during the first Administration. In part because of this criticism, inspections in the first three quarters of 1997 are up 32% from Fiscal Year 1996.

Ergonomics: OSHA is working to combat cumulative trauma and other repetitive stress disorders - one of the fastest growing workplace injuries; its four part strategy includes education and outreach; study and analysis; enforcement; and rulemaking. There have been 91 federal OSHA ergonomic investigations so far in FY 1997. Though the FY 1998 bill prohibits OSHA from issuing a final or proposed rule before October 1, 1998, work continues on the development of a standard.

LABOR LAW

The TEAM Act: The TEAM Act would effectively repeal a key provision of the National Labor Relations Act which prohibits employers from dominating worker organizations. You vetoed the TEAM Act in 1996. The bill was reintroduced this year and reported favorably by the Senate Labor Committee. At the AFL CIO Executive Council in February the Vice President reiterated that you will veto "any bill that undermines the collective bargaining process or permits

company unions filled with employers' hand picked representatives."

You may be asked about an amendment that Senator Bingaman is circulating. Although the Bingaman amendment aims to narrow the scope of the TEAM Act, thereby making it acceptable to Democrats, it still allows many circumstances where employers may select employee representatives and create company unions. Thus it violates the basic premise of workplace democracy that employees should be able to democratically select their representatives when dealing with their employer over issues of wages, work hours and working conditions.

The Administration has not taken a **public** position on Bingaman's proposal.

Comp Time/Flex Time: In September 1996 you proposed the Family Friendly Workplace Act. In response to unacceptable Republican legislation, you have repeatedly called for responsible comp time legislation and threatened to veto any bill unless it: (i) gives employees real choice, (ii) protects workers against abuse and (iii) preserves the 40 hour work week. The Administration has said it will veto both the House passed Ballenger bill and the Ashcroft bill currently pending in the Senate because they fail the three part test. While the AFL-CIO agrees with your veto positions, they do not support your proposal.

Davis-Bacon & Service Contract Act

Davis-Bacon and the Service Contract Act require payment of prevailing wages and fringe benefits to workers engaged in federal construction & service projects. Both laws are regularly under assault in the Congress, but there are no pending legislative initiatives to repeal or amend the statute. If asked, you should reiterate as you did in February that we will veto attempts to repeal them.

The wage survey used by the Department of Labor to determine the prevailing rate have been flawed. The Department is working to improve their accuracy and timeliness. The building trades unions support the Department's efforts, but oppose using BLS data as a substitute for the current wage survey process.

LABOR DISPUTES

UPS Pilots: Negotiations between UPS and its 2,000 *pilots*, represented by the Independent Pilots Association (IPA), began in 1995. In late August, the IPA agreed to sent out the last UPS contract offer for a vote, but without a recommendation by the union. Results are expected on September 30. The National Mediation Board has indicated that if the contract is rejected, new talks will not be scheduled until early next year. The Teamsters union, which represents 185,000 UPS employees, has promised to honor a strike by the independent pilots union at UPS.

Amtrak: Amtrak's unions have been in negotiations since early 1995. On August 5, the Brotherhood of Maintenance of Way Employees (BMWE) rejected the National Mediation Board's offer to arbitrate the dispute with Amtrak, triggering a 30-day cooling off period that was to end on September 5. However, on August 21, you appointed an emergency board [PEB] to

investigate and make recommendations. Yesterday (September 22) the PEB recommended pay scale increases for Amtrak's Maintenance of Way employees, consistent with those used by the union and the RRs. The PEB also refused to recommend work rule changes, instead recommending a process for concluding negotiations between the parties. The parties now have 30 days to resolve their differences relying on the PEB's recommendations.

PRIVATIZATION OF THE EMPLOYMENT SERVICE

Michigan: Governor Engler recently issued an Executive Order that would allow for the privatization of the Michigan Employment Service. Approximately 400 merit-staffed State employees, represented by SEIU, would be affected by the Executive Order, scheduled to effect on October 6. The Department of Labor directed the Michigan Jobs Commission to suspend implementation of the reorganization plan. The Department has not made a final decision on the legality of Michigan's plan.

Texas: A request by the State of Texas to privatize its Employment Service is on hold. Last spring, HHS rejected Texas' plan to privatize portions of its Medicaid and Food Stamps program. Other states are closely watching the Michigan situation; New York, Illinois and Pennsylvania are considering similar privatization efforts.

OTHER ISSUES OF INTEREST TO THE AFL CIO & ITS MEMBERS

International Linkages and Offsets in Aerospace

The International Association of Machinists and Aerospace Workers (IAM) is sharply critical of U.S. aerospace producers' willingness to provide foreign production contracts in exchange for aircraft sales, which they believe transfers jobs and technology in the short run and, over the longer run, creates new foreign competitors. Boeing and other U.S. producers defend these voluntary international linkages as essential for gaining access to the most rapidly growing markets (70% of Boeing aircraft are exported) and for sharing financial risk. In the case of mandatory offsets, U.S. producers maintain that -- while they would prefer not to provide them -- they are the price of getting foreign sales.

In June, the NEC sponsored a workshop at the National Academy of Sciences on "Policy Issues in Aerospace Offsets."

Although there is no consensus within the Administration on how to deal with the offsets issue, we are committed to analyzing and better understanding the offsets issue, encouraging dialogue among the various interests on this issue; and continuing to take action to reduce government-mandated offsets through multilateral agreements and bilateral discussions.

Pensions: Since the start of the Administration, we have taken strong legislative and administrative action to enhance the ability of Americans to save for retirement and to protect the security of those savings. The Retirement Protection Act, proposed in 1993 and enacted in 1994, has put traditional defined benefit plans and the Pension Benefit Guaranty Corporation back on a firm footing, protecting the security of over 40 million workers who participate in those plans. In 1996, we

passed major pension simplification legislation and took strong administrative steps, which appear to be meeting their goals of expanding coverage, increasing portability and enhancing security. Unfortunately, Congress has not supported the Administration's efforts to do right by the multi employer plans that many union members depend on. We will continue to work to increase the guarantee, and to make other simplifying changes that will enhance the benefits available under these plans.

Credit Unions: Credit unions and banks are engaged in a judicial and legislative battle over whether a single credit union can serve employees of many different and totally unrelated companies, or whether this violates both the letter and spirit of the Credit Union Act under which credit unions do not pay taxes (and are exempt from the Community Reinvestment Act). Credit unions generally have a good record of serving, at relatively low cost, lower income workers who have straight-forward and relatively small financial needs. The Treasury Department is in the middle of a statutorily-required study on the regulation of credit unions, and the Administration has carefully NOT taken a position on the bank/credit union issue, except that -- for reasons related to administrative law, not the substance of the case -- the United States is on the credit unions' side in the Supreme Court. This does not seem to be a top-of-mind issue for labor; labor unions sponsor both credit unions and banks.

Product Liability Reform: Labor has consistently opposed attempts to enact federal legislation that would alter state law concerning product liability, mainly because most federal legislation that has been proposed in the last 15 years has been extremely pro-defendant. The President vetoed a product liability bill in 1996, but stated that he was for "sensible product liability reform," and set out particular issues that needed to be addressed. Congress is currently considering new product liability legislation, which both House and Senate leadership hope to bring to the floor before the recess. Although the bills currently do not meet the President's standards, Senator Rockefeller is attempting to craft a solution that will meet our objections. Labor will probably not be happy if this effort succeeds.

Securities law preemption: While labor in general has been less interested in the issue of limitations on the right to sue under the securities laws than it is in product liability reform, they also opposed the Private Securities Litigation Reform Act, which was passed over the President's veto. Business is now trying to extend that statute by getting Congress to enact legislation to preempt most state securities fraud actions. We will likely support some sort of legislation to the Reform Act work better, but it is unlikely to be as broad as that proposed by the business community.

Electricity Restructuring: Many states have begun restructuring their electrical utilities to afford consumers "retail choice"- the ability to select their electric power provider much like they now select their long distance company. Several federal bills have been introduced, too, and the Administration has been considering whether to offer its own bill. The Department of Energy has estimated that the savings to consumers resulting from retail choice could be over \$10 billion per year. The policy process in the Administration on this issue has been underway since April, when the NEC began convening twice-weekly meetings of an interagency group to develop recommendations about the Administration's position. The interagency task force was made up of representatives from nearly all of the cabinet departments, including Labor, and many of the independent federal agencies in an expert advisor capacity.

The NEC staff (Kathy Wallman and Marc Silverman) have met with the International Brotherhood of Electrical Workers (IBEW) and assured them that we will continue to consult with them throughout this process. A major concern of labor is that restructuring will lead to a reduction in the number of jobs available to their rank and file in the electricity industry. They also point out that the consumer benefits may not be shared by all, particularly residential customers, and warn that large consumers may benefit while residential rates increase. The IBEW feels strongly that there should be no federal mandate on electricity restructuring. Instead, labor would prefer that the process of restructuring be left to individual states to decide on competition. There is also concern on labor's part that competition could lead to diminished reliability as utilities cut back on spending to become more efficient and profitable.

TRADE AND THE ENVIRONMENT UNDER PRESIDENT CLINTON

President Clinton is committed to ensuring that trade expansion and increased international competition contribute to environmental protections at home and abroad. The President fought to ensure that NAFTA comprehensively addressed environmental concerns contained mechanisms to address the unique environmental problems that have long challenged communities along the 2000-mile shared border with Mexico. President Clinton fought for and won important advances on the environment in the WTO Agreement, including a permanent forum to address the link between trade and the environment in the World Trade Organization (WTO). He has strongly and effectively implemented U.S. environmental laws to obtain improvements in other countries' environmental practices, including using, where called for, the threat of trade sanctions.

PRESIDENT CLINTON HAS DONE MORE TO ADVANCE ENVIRONMENTAL INTERESTS IN INTERNATIONAL TRADE FORA THAN ANY OTHER U.S. PRESIDENT.

- **Advancing Environmental Protections in the WTO:** The Administration fought for and won important environmental advances in the Uruguay Round of trade negotiations, including recognition in the Preamble of the WTO Agreement of sustainable development as a key objective of the WTO; strengthened agreements on Sanitary and Phytosanitary Measures and the Agreement on Technical Barriers to Trade to protect legitimate environmental measures from challenge under the Agreements; improvements to the Dispute Settlement Understanding to provide for the use of environmental experts in disputes and to make the process more transparent by allowing disputing parties to make their submissions public and requiring that a public version be provided of all panel submissions; and securing the creation of a Committee on Trade and Environment in the WTO, for the first time creating a permanent forum for addressing the linkage between trade and the environment.
- **Improved Environmental Practices Worldwide:** The Administration has aggressively implemented U.S. environmental laws, using the threat of trade sanctions where appropriate to obtain improvements in other countries' environmental practices. For example, President Clinton imposed trade sanctions on Taiwan for its failure to curb illegal trade in rhino horn and tiger bone. These sanctions were lifted when Taiwan made demonstrable progress in halting this trade.
- **Proposed an APEC Environmental Technologies and Services Sector Liberalization Initiative:** The Administration is working to advance APEC-wide sector liberalization in an industry ignored by previous administrations. High tariffs and disguised barriers to trade have limited the ability of developing countries to use the most advanced and useful technologies and services to address environmental problems from basic water and wastewater treatment needs to the need for the most advanced bioremediation technologies.
- **Forged Agreement to Negotiate Global Phaseout of Persistent Pollutants:** The Clinton Administration is leading the way on a negotiation to withdraw 12 dangerous, persistent organic pollutants, such as PCBs and DDT, from the global marketplace.

THE NORTH AMERICAN AGREEMENT ON ENVIRONMENTAL COOPERATION (NAAEC) HAS LED TO UNPRECEDENTED REGIONAL ENVIRONMENTAL COOPERATION AND IMPROVED ENFORCEMENT OF MEXICO'S ENVIRONMENTAL LAWS. THE INTERNATIONAL PUBLIC SCRUTINY ASSOCIATED WITH THE NAFTA SUBMISSION PROCESS HAS BEEN AN IMPORTANT IMPETUS FOR CHANGE IN MEXICO.

- **Cleaning Up the U.S.-Mexico Border:** NAFTA's environmental institutions are addressing critical environmental infrastructure needs.
 - **\$2-3 Billion in Lending:** Over time, the North American Development Bank (NADBank) will be able to leverage its capital into \$2 to \$3 billion in lending. To date, 16 projects have been certified with a combined cost of nearly \$230 million, and construction has already begun on seven projects.
 - **Border Cleanup Projects:** The NADBank, together with the NAFTA Border Environment Cooperation Commission (BECC) and federal and state officials on both sides of the border, have identified more than 30 environmental projects along the border with a total cost of about \$500 million for their 1997-99 work plan.

- **Affordable Water Cleanup for Poor Border Communities.** NADBank is establishing co-financing mechanisms with U.S. and Mexican grant programs to provide affordable financing for poor border communities. A recent agreement will enable NADBank to combine its loans with up to \$170 million in grants from the Environmental Protection Agency for border water and wastewater projects.
- **Border XXI:** The United States and Mexico have established a five-year blueprint for achieving a clean border environment. We are already cooperating to abate emissions from vehicles at border crossings, tracking transboundary shipments of hazardous wastes, and operating a U.S.-Mexico Joint Response Team to minimize the risk of chemical accidents, to name just a few activities.
- **Submission Process on Environmental Enforcement:** The NAAEC submission process -- which subjects member governments to public and international scrutiny for alleged violations of environmental laws, and can also lead to economic sanctions -- is working as intended. Under NAFTA, Mexico's enforcement of its environmental laws has improved and there has been an unprecedented amount of cooperation between the United States and Mexico on environmental enforcement.
- **Oversight of Enforcement:** The NAFTA Commission for Environmental Cooperation's (CEC) review of citizen submissions alleging nonenforcement of environmental laws has led to an investigation of the adequacy of environmental reviews of a cruise ship pier in Cozumel, Mexico and a report on water use in the Fort Huachuca, Arizona area.
- **Improved Mexican Enforcement:** Mexico has increased the number of environmental enforcement actions from roughly 3,100 in 1991 to between 12,000 and 13,000 annually since NAFTA was signed. Mexico reports a 72% reduction in serious environmental violations in the maquiladora industry and a 43% increase in the number of maquiladora facilities in complete compliance.
- **Cooperating to Clean up North America:** Through the CEC, Mexico has agreed to join the United States and Canada in banning the pesticides DDT and chlordane, ensuring that these long-lived, toxic substances no longer cross our border.

TRADE AND LABOR PROTECTIONS UNDER PRESIDENT CLINTON

President Clinton is committed to ensuring that trade expansion benefits all American workers and international competition is consistent with internationally accepted labor standards. Internationally, he has done more than any other President -- advancing core labor standards through the North American Free Trade Agreement (NAFTA), the World Trade Organization (WTO), the International Labor Organization (ILO), and the Organization of American States (OAS), and encouraging the voluntary adoption of codes of conduct through Model Business Principles and the Apparel Industry Partnership. At home, he has fought to expand opportunities for dislocated and low wage workers through increases in training, the security of pension and health benefits, the minimum wage and the Earned Income Tax Credit (EITC).

PRESIDENT CLINTON HAS DONE MORE TO PROMOTE LABOR STANDARDS IN INTERNATIONAL TRADE THAN ANY OTHER PRESIDENT. GAINING INTERNATIONAL RECOGNITION OF THE LINK BETWEEN TRADE AND LABOR ISSUES WILL BE A GRADUAL PROCESS, REQUIRING PERSEVERANCE AND COMMITMENT. DESPITE SIGNIFICANT OBSTACLES, THE CLINTON ADMINISTRATION HAS MADE SIGNIFICANT PROGRESS ON LEVELLING THE PLAYING FIELD FOR AMERICAN WORKERS, OBTAINING COMMITMENTS ON CORE LABOR STANDARDS IN INTERNATIONAL TRADE ORGANIZATIONS, AND IMPROVING THE STANDARD OF LIVING FOR WORKERS EVERYWHERE.

- **Winning International Recognition of Core Labor Standards:** At the UN Summit for Social Development in 1995, the Administration succeeded in obtaining a commitment by over one hundred heads of State and government -- for the first time in history -- to recognition of those "core" worker rights that the Administration believes should be protected in every country, regardless of the level of economic development.
- **Protecting Labor Rights in the Hemisphere:** At the OAS Labor Ministerial in 1995, the Administration obtained a commitment from all countries in our hemisphere recognizing the importance of protecting worker rights as we negotiate the Free Trade Area of the Americas.
- **Advancing Labor Standards in the WTO:** At the Singapore Ministerial Meeting of the WTO in 1996, the Administration fought for and won -- for the first time in the GATT/WTO's existence -- a formal commitment by 128 nations to the observance of core labor standards. The WTO also endorsed collaboration with the ILO to advance this agenda.
- **Encouraging Private Sector Codes of Conduct:** In 1994, the Administration developed and disseminated Model Business Principles protecting core worker rights and encouraged private sector adoption through conferences and a best practices award. In 1996, President Clinton helped launch the Apparel Industry Partnership: a collaboration between labor, business and nongovernmental organizations to encourage adoption of a code of conduct prohibiting exploitative child labor and encouraging humane working conditions through external monitoring and consumer awareness.
- **Suspension of Trade Benefits:** The Administration suspended full trade preferences for Burma, Sudan, Mauritania, and Syria and partial preferences for Pakistan for inadequate observance of basic worker rights.
- **International Monitoring of Labor Standards:** In 1997, Administration support was decisive in the adoption of an ILO proposal to establish a mechanism to monitor countries' implementation of core labor standards. The Administration has supported examination of labor standards implementation through the Organization for Economic Cooperation and Development (OECD), conferences on core labor standards in developing economies in Asia and Latin America, and ILO Programs to combat child labor in Pakistan, Bangladesh, Thailand, and Brazil.

NAFTA IS THE FIRST TRADE AGREEMENT TO INCLUDE PROTECTIONS FOR WORKERS. THE NORTH AMERICAN

AGREEMENT ON LABOR COOPERATION (NAALC) HAS ENHANCED OVERSIGHT AND ENFORCEMENT OF NATIONAL LABOR LAWS AND CREATED NORTH AMERICAN COOPERATION ON FUNDAMENTAL LABOR ISSUES -- FOR THE FIRST TIME. THE INTERNATIONAL PUBLIC SCRUTINY ASSOCIATED WITH THE NAFTA SUBMISSION PROCESS HAS BEEN AN IMPORTANT IMPETUS FOR CHANGE IN MEXICO.

- **Union Recognition and Secret Ballots:** The NAALC submission process subjects member governments to public and international scrutiny for alleged violations of labor laws; it can also lead to economic sanctions. To date, the United States has received seven submissions against Mexico, and Mexico has reviewed one submission against the United States. The review of these submissions has yielded concrete remedies. In one case, a Mexican labor tribunal granted recognition to the petitioning union, reversing an earlier decision, and afforded a new hearing for workers dismissed for union activity. In other cases, workers were permitted secret ballot elections, a practice not common in Mexico. In addition, a number of Mexican labor disputes have been settled by companies wishing to avoid the negative publicity associated with the NAFTA review process.
- **Legal Advances:** Important legal advances on labor rights have taken place in Mexico since NAFTA was signed. In 1996, the Supreme Court of Mexico issued two decisions finding state statutes restricting freedom of association unconstitutional. Mexico's Department of Labor has issued recommendations providing for greater autonomy and professionalism of tripartite labor tribunals and making the union registration process a purely administrative decision.
- **Stronger Mexican Enforcement:** Since NAFTA was signed, Mexico's Secretariat of Labor and Social Welfare reports a nearly 250 percent increase in funding for enforcement and a 30 percent reduction in the number of workplace injuries and illnesses.

PRESIDENT CLINTON HAS CONSISTENTLY FOUGHT TO ENSURE THAT THE NEW ECONOMY BENEFITS ALL WORKERS. INDEED, NO PRESIDENT CARES MORE ABOUT THE CONCERNS OF LOW-WAGE AND DISLOCATED WORKERS.

- **NAFTA Transitional Adjustment Assistance (NAFTA TAA).** The President fought for and won a special NAFTA-TAA program that for the first time provides retraining and reemployment assistance and income support to workers displaced by production shifts as well as trade, and provides income support for "secondary" workers.
- **Dislocated Worker Training.** President Clinton has doubled funding for the Dislocated Worker assistance program helping an additional 300,000 workers get training and job search assistance.
- **HOPE Scholarships and Tuition Tax Credits.** To help workers enhance their skills throughout their working lifetimes, the President fought for and won both a \$1,500 two-year HOPE Scholarship and a 20% tuition tax credit.
- **Health Benefits for Job Changers.** The 1996 "Kassebaum-Kennedy" law ensures that as many as 25 million more Americans will no longer have to fear that they will lose their access to health insurance if they lose their job or change jobs.
- **One-Stop Career Centers.** To help workers make a rapid transition between jobs, the Administration is transforming a fragmented array of employment and training programs into a "One-Stop" coordinated information and delivery system. The President's budget proposed \$150 million in funding to expand One-Stop Career Centers to all states in 1998.

RESPONSE TO AFL-CIO CLAIMS ON NAFTA

Claim: THE ADMINISTRATION CLAIMS NAFTA HAS CREATED 700,000 JOBS, BUT ACTUALLY "ON NET, 420,000 JOBS HAVE BEEN LOST DUE TO THE UNFAVORABLE SWING IN OUR NORTH AMERICAN MERCHANDISE TRADE BALANCE."

The Facts: ANY WAY YOU LOOK AT IT, NAFTA HAS BEEN A JOB CREATOR FOR AMERICA.

- **Increased Exports to Our NAFTA Partners Support Over 300,000 Jobs:** Exports to Mexico have grown 37 percent and exports to Canada have grown 34 percent under NAFTA, creating over 300,000 jobs (not 700,000). The jobs supported by new exports to Mexico have already surpassed 200,000 this year -- in line with Administration projections. And export jobs are good jobs, paying 13 to 16 percent more than the national average.
- **NAFTA Boosted Net Exports:** Even if you adopt our critic's methodology and look at net exports, NAFTA was a job creator. Several outside studies have concluded that when you isolate the effects of the peso crisis and America's strong economy, NAFTA itself caused an increase in the trade surplus with Mexico. For instance, DRI estimates that NAFTA boosted real net exports to Mexico by \$7 billion in 1996, controlling for Mexico's financial crisis.
- **Most Imports Do Not Displace Jobs:** It is wrong to assume imports displace U.S. jobs. History shows that the U.S. trade deficit increases most when our job growth is highest because our demand for imports rises as our income grows

Claim: "IT IS IMPOSSIBLE TO SEPARATE THE IMPACT OF NAFTA FROM THAT OF THE PESO CRISIS. NAFTA WAS SOLD AS PART OF A PACKAGE DEAL THAT ALSO INVOLVED REWARDING PRESIDENT CARLOS SALINAS AND HIS ECONOMIC REFORMS. THAT SET OF REFORMS -- INCLUDING NAFTA -- DID CAUSE THE PESO CRISIS."

The Facts: MANY COUNTRIES HAVE EXPERIENCED CURRENCY CRISES -- IN SOUTHEAST ASIA IN 1997, IN EUROPE IN 1994, IN LATIN AMERICA IN 1982, TO NAME JUST A FEW. THEY HAD MANY THINGS IN COMMON, SUCH AS UNSUSTAINABLE EXCHANGE RATES AND BUDGET IMBALANCES, BUT NOT NAFTA. MEXICO ITSELF EXPERIENCED SEVERE CRISES LONG BEFORE NAFTA. IF ANYTHING, NAFTA PROTECTED THE MEXICAN ECONOMY -- AND AMERICAN EXPORTS -- FROM THE FINANCIAL CRISIS BY LOCKING IN MEXICO'S ECONOMIC REFORMS AND PROVIDING SAFEGUARDS FOR FOREIGN INVESTORS.

- **NAFTA Helped Mexico Recover Faster:** Following Mexico's 1982 financial crisis, it took seven years before international investors were sufficiently confident to resume lending to Mexico; in 1995, it took 7 months. Following the 1982 crisis, Mexican output did not recover to pre-crisis levels for five years, while following the 1995 crisis, Mexican output rebounded to pre-crisis peaks in less than 2 years.
- **NAFTA Locked in Preferential Access for American Products.** Following Mexico's 1982 financial crisis, Mexico raised tariffs by 100 percent, and American exports to Mexico fell by half and did not recover for seven years. In 1995, Mexico continued to implement its NAFTA obligations even as it raised tariffs on imports from other countries. As a result, American exports recovered in 18 months and were up 37 percent by the end of 1996 relative to pre-NAFTA levels.

Claim: "U.S. EXPORTS FELL LESS AFTER THE 1994 CRISIS THAN AFTER THE 1982 CRISIS FOR A SIMPLE REASON: MAQUILADORAS...THE U.S. TRADE DEFICIT WITH MEXICO WAS ABOUT TWICE AS HIGH IN 1995 AS IN 1983, AND THE DROP IN MEXICAN GDP WAS GREATER IN 1995 THAN IN THE TWO YEARS FOLLOWING THE 1982 DEBT CRISIS."

The Facts: IN FACT, UNDER NAFTA, THE IMPORTANCE OF MAQUILADORAS IN U.S. TRADE WITH MEXICO HAS DECLINED. IT IS TRUE THAT THE U.S. CONTENT IN IMPORTS FROM MEXICO REMAINS MUCH HIGHER THAN THE IMPORTS FROM ASIA AND ELSEWHERE THAT THEY ARE REPLACING -- BUT THIS SHOULD BE A NET POSITIVE FOR AMERICAN WORKERS.

- **Maquiladora Share is Down Under NAFTA:** Since NAFTA was signed, the share of U.S. imports from Mexico accounted for by maquiladoras has dropped from 49 percent to 38 percent. And the share of U.S. imports made up of U.S. products processed by maquiladoras has fallen by one-fifth.
- **NAFTA Reduces Maquiladora Role:** NAFTA contains explicit provisions expanding the share of maquiladora production that can be sold directly to Mexican consumers rather than to U.S. consumers from 0 in 1993 to 70 percent in 1996 and to 100 percent in 2001.
- **Mexican Imports Displace Imports with Lower U.S. Content:** In many industries, Mexican imports have come at the expense of imports from other regions, which have lower U.S. domestic content. In the apparel industry, the share of U.S. imports supplied by Mexico rose from 4.4 percent in 1993 to 9.6 percent in 1996, while the share supplied by China, Hong Kong, Taiwan and Korea fell from 39 percent in 1993 to 30 percent in 1996. Close to two-thirds of the value of U.S. apparel imports from Mexico in 1996 was comprised of U.S. content -- much higher than Asian imports.

Claim: IT IS WRONG TO CLAIM THAT IF WE DON'T NEGOTIATE A TRADE DEAL WITH LATIN AMERICA, OTHER COUNTRIES WILL GET THERE FIRST. "IN FACT, SIGNING NAFTA DID NOT GUARANTEE THE UNITED STATES EXCLUSIVE ACCESS TO THE MEXICAN MARKET. THE EU AND JAPAN RAN TRADE SURPLUSES WITH MEXICO IN 1995, AS THE U.S. TRADE DEFICIT BALLOONED."

The Facts: THERE IS NO QUESTION THAT THE 10 PERCENTAGE POINT TARIFF ADVANTAGE NAFTA HAS GIVEN U.S. SUPPLIERS OVER THEIR FOREIGN COMPETITORS HAS HELPED OUR FIRMS CAPTURE A 75.5 PERCENT SHARE OF MEXICO'S IMPORT MARKET -- UP BY 6.2 PERCENTAGE POINTS IN ONLY THREE YEARS.

- **EU and Japan Trade Balances Fell Dramatically Following Peso Crisis:** In fact, the EU's trade balance with Mexico deteriorated by two-thirds following Mexico's peso crisis and Japan's trade balance fell by over a quarter. The fact that Japan and the EU maintained small trade surpluses with Mexico -- despite those declines -- reflects the large overall trade surpluses in both countries associated with their weak growth.
- **Our Exports Fell Less than Other Trade Partners:** Because of NAFTA, our exports to Mexico fell substantially less following the peso crisis than those from other countries. European exports to Mexico fell by 29 percent and Korean exports fell by 27 percent -- compared to a short-lived 9 percent drop for the United States.
- **Other Countries Are Concluding Agreements Without Us:** The facts are clear: if we do not move ahead, we will get left behind. Chile has already negotiated a free trade agreement with countries such as Canada and Brazil. If we do not move forward with trade negotiations, our exporters will face a cost disadvantage of 11 percent in Chile's fast-growing market. American telecommunications suppliers have already suffered from that cost disadvantage, losing contracts to their Canadian

competitors.

Claim: "IT IS TRUE THAT THE UNITED STATES HAS LOW TARIFFS RELATIVE TO THOSE IN MANY OTHER COUNTRIES. BUT THIS IS NO GUARANTEE THAT WE WILL SELL MORE PROPORTIONALLY THAN OUR TRADE PARTNERS AFTER SIGNING TRADE AGREEMENTS. IF ANYTHING, THE OPPOSITE TENDS TO HAPPEN."

The Facts: PRESIDENT CLINTON HAS NEGOTIATED TOUGH TRADE AGREEMENTS THAT ARE BRINGING DOWN FOREIGN TRADE BARRIERS MUCH MORE THAN OUR OWN -- RESULTING IN MEASURABLE GAINS. THE FACT THAT WE ALREADY HAVE RELATIVELY LOW TRADE BARRIERS MEANS THAT WE HAVE NOTHING TO LOSE FROM MARKET OPENING AGREEMENTS -- AND EVERYTHING TO GAIN.

- **Mexico's NAFTA Tariff Cuts Five Times Greater:** Since NAFTA went into effect, Mexico has cut tariffs on U.S. exports five times more than the U.S. With a 10 percentage point advantage over their foreign competitors, U.S. suppliers have expanded their share of Mexico's import market by 6.2 percentage points to 75.5 percent.
- **Share Gains in Key Sectors:** Since NAFTA was signed, the U.S. share of Mexican imports is up 19.2 percentage points to 83.1 percent in the transportation equipment sector, where Mexican tariff cuts are more than 9 times greater than U.S. cuts. And the U.S. share is up 5.7 percentage points to 74.3 percent in the electronic goods and appliances sector, where Mexican tariff cuts are more than 4 times greater than U.S. cuts.

Claim: "IT CERTAINLY SEEMS AS THOUGH U.S. COMPANIES ARE ENJOYING PRETTY GOOD ACCESS TO LATIN AMERICAN MARKETS, EVEN WITHOUT OUR OWN REGIONAL AGREEMENT."

The Facts: PRETTY GOOD IS NOT GOOD ENOUGH. OUR EXPORTS COULD BE GROWING FASTER -- CREATING MORE HIGH-WAGE JOB OPPORTUNITIES FOR AMERICAN WORKERS -- IF WE HAD FAST TRACK AUTHORITY TO LEVEL THE PLAYING FIELD WITH FAST-GROWING FOREIGN MARKETS.

- Although U.S. exports to Chile have achieved respectable growth of 14 percent since 1995, Mexico's exports to Chile have growth 3 times faster with the help of a bilateral free trade agreement.
- Although it is true that U.S. exports to South America and the Caribbean grew by 20 percent last year, U.S. exports to Mexico grew by 23 percent, with the help of NAFTA's preferential access.
- American fresh fruit producers have a respectable 39 percent share of Venezuela's market. But we could increase our share to 67 percent if we didn't face a tariff disadvantage relative to countries such as Chile that have a free trade agreement with Venezuela

Claim: IN 1995 AND 1996, U.S. JOB GROWTH WAS CONCENTRATED IN THE NON-TRADED SECTORS OF THE ECONOMY. THE FACT THAT THE OVERALL ECONOMY WAS GROWING PREVENTED MORE UNEMPLOYMENT FROM BEING VISIBLE. BUT MANY WORKERS LOST THEIR JOBS FROM THE GROWTH IN THE TRADE DEFICIT WITH MEXICO.

The Facts: ACTUALLY, TRADE WAS A MAJOR SOURCE OF DYNAMISM IN THE U.S. ECONOMY IN 1995 AND 1996, AND JOBS SUPPORTED BY EXPORTS GREW RAPIDLY -- DESPITE MEXICO'S PESO CRISIS. ALTHOUGH THE MAJORITY OF AMERICAN JOBS ARE IN TRADITIONALLY NONTRADED SECTORS, IN FACT MANY OF THESE JOBS ARE NOW SUPPORTED BY TRADE.

- **Exports Support Jobs in Traditionally Nontraded Sectors:** Fully 57 percent of the 11.5 million jobs supported by exports are indirect. Many of the jobs that are traditionally categorized as

"nontraded" -- food service workers, truck drivers, hotel workers -- are in reality indirectly tied to our dynamic export performance.

- **Overall Exports and Export Jobs Grew Fast in 1995:** In 1995, jobs supported by exports grew by 8.3 percent and trade contributed over half of our overall growth -- despite Mexico's financial crisis.

Claim: "THE ADMINISTRATION CAN AND DOES NEGOTIATE TRADE AGREEMENTS WITHOUT FAST TRACK AUTHORITY. ALL THIS MEANS IS THAT THE AGREEMENTS ARE SUBJECT TO AMENDMENT AND INPUT FROM CONGRESS."

The Facts: MAJOR OPINION LEADERS AND OUR FOREIGN NEGOTIATING PARTNERS BELIEVE OTHERWISE. FAST TRACK IS VITAL FOR SUSTAINING AMERICAN LEADERSHIP IN THE INTERNATIONAL ECONOMY AND GIVING THE PRESIDENT THE CREDIBILITY TO NEGOTIATE TOUGH DEALS. EVERY PRESIDENT FOR OVER 20 YEARS HAS HAD FAST TRACK AUTHORITY.

- In 1994, the *New York Times* declared: "Mr. Clinton needs fast track if he is to secure the trade agreements called for in his economic strategy." [11/7/94]
- *Business Week* said fast track "is vitally important as an instrument to help break down global trade barriers." [5/19/97]
- The *Arizona Republic* stated "Without fast track, the United States will not have the credibility it needs..." [7/10/97]

Claim: "THE WAGES IN INDUSTRIES THAT COMPETE WITH MEXICAN IMPORTS ARE ALMOST IDENTICAL TO THE WAGES IN INDUSTRIES THAT EXPORT TO MEXICO. SECOND, IT IS WRONG TO DISMISS A LARGE CLASS OF JOBS AS "DISPOSABLE...""

The Facts: PRESIDENT CLINTON HAS CONSISTENTLY FOUGHT TO ENSURE THAT TRADE BENEFITS ALL WORKERS. OVER THE PAST 4 YEARS, EXPORTS HAVE GENERATED ONE THIRD OF OUR ECONOMIC GROWTH, SUPPORTING 1.7 MILLION ADDITIONAL JOBS. ANY WAY YOU MEASURE IT, FOR ANY SKILL LEVEL, EXPORT JOBS ARE GOOD JOBS, PAYING 12 TO 16 PERCENT ABOVE THE NATIONAL AVERAGE.

- **The President has worked hard to address the concerns of low-wage and dislocated workers.**
 - **NAFTA Transitional Adjustment Assistance (NAFTA TAA).** The President fought for and won a NAFTA-TAA program that for the first time provides retraining and reemployment assistance and income support to workers displaced by production shifts as well as trade and income support for "secondary" workers.
 - **Dislocated Worker Training.** President Clinton has doubled funding for the Dislocated Worker assistance program helping an additional 300,000 workers get training and job search assistance.
 - **Health Benefits for Job Changers.** The 1996 "Kassebaum-Kennedy" law ensures that as many as 25 million more Americans will no longer have to fear that they will lose their access to health insurance if they lose their job or change jobs.
 - **One-Stop Career Centers.** To help workers make a rapid transition between jobs, the Administration is transforming a fragmented array of employment and training programs into a "One-Stop" coordinated information and delivery system. The President's budget proposed \$150 million in funding to expand One-Stop Career Centers to all states in 1998.
 - **HOPE Scholarships and Tuition Tax Credits.** To help workers enhance their skills throughout their working lifetimes, the President fought for and won a \$1,500 two-year HOPE Scholarship and a 20% tuition tax credit.

U.S. DEPARTMENT OF LABOR

SECRETARY OF LABOR
WASHINGTON, D.C.

96 JAN 30 PM 4:07

MEMORANDUM FOR THE PRESIDENT

FROM: ROBERT B. REICH *RR*
DATE: JANUARY 26, 1996
SUBJECT: THE MINIMUM WAGE AND YOUR
FEBRUARY 3 RADIO ADDRESS

Saturday, February 3, 1996 will mark the first anniversary of your proposal to increase the minimum wage from \$4.25 to \$5.15 in two increments. Thus, your Saturday radio address on February 3 presents an excellent opportunity to make the case.

Congress' failure to raise the minimum wage by 45 cents in July 1995, the first of the two raises you proposed, has already deprived full-time minimum wage workers of \$525. If Congress had passed your proposal, these minimum wage workers could have provided their families with:

- ✓ food for their home for 3 months; or
- ✓ 10 months of health insurance premiums; or
- ✓ 10 months of paid electricity bills; or
- ✓ a 21-month supply of prescription drugs for ailing parents or sick children.

If Congress continues its refusal to pass your proposed minimum wage increase (the full 90 cents), full-time minimum wage workers will lose an additional \$1,425 between now and next February. This additional money would allow these minimum wage workers to provide their families with:

- ✓ food for their home for nine months; or
- ✓ complete health care for a year; or
- ✓ paid utility bills for almost a year; or
- ✓ one year's tuition at many community colleges.

You might emphasize these human consequences of Congress' inaction by inviting minimum wage families to attend your radio address.

You could also remind Americans that increasing the minimum wage has long had the support of leaders in both parties. The first half of the 90-cent increase you have proposed would simply restore the minimum wage to its value in 1989, when Congress voted in an overwhelming and bi-partisan manner (382-37 in the House, 89-8 in the Senate) to increase the minimum wage, also by 90 cents.

During the 1989 debate over the minimum wage, Senator Dole harshly criticized those who would call for a cut in the capital gains tax but oppose an increase in the minimum wage: "I think that many of us feel that this is not an issue where we ought to be standing and holding up anybody's getting a 30-to-40 cents an hour pay increase, at the same time that we're talking about capital gains. I never thought the Republican Party should stand for squeezing every last nickel from the minimum wage."

Please let me know if you would like to proceed with a radio address on the minimum wage. If so, I'll work with Don Baer and other appropriate staff to prepare the address.

WHITE HOUSE STAFFING MEMORANDUM

DATE: 1-30 ACTION/CONCURRENCE/COMMENT DUE BY: 1-31

SUBJECT: Reich memo on minimum Wage & Radio Address

	ACTION	FYI		ACTION	FYI
VICE PRESIDENT	☒	☐	McCURRY	☐	☐
PANETTA	☒	☐	McGINTY	☐	☐
McLARTY	☐	☐	NASH	☐	☐
ICKES	☒	☐	QUINN	☐	☐
LIEBERMAN	☒	☐	RASCO	☐	☐
RIVLIN	☐	☐	SOSNIK	☐	☐
BAER	☒	☐	STEPHANOPOULOS	☒	☐
CURRY	☐	☐	STIGLITZ	☐	☐
EMANUEL	☐	☐	STREETT	☐	☐
GIBBONS	☐	☐	TYSON	☒	☐
GRIFFIN	☐	☐	WALLEY	☐	☐
HALE	☐	☐	WILLIAMS	☐	☐
HERMAN	☐	☐	<u>Speerting</u>	☒	☐
HIGGINS	☐	☐	<u>Waldman</u>	☒	☐
KLAIN	☒	☐		☐	☐
LAKE	☐	☐		☐	☐
LINDSEY	☐	☐		☐	☐

REMARKS:

Any comment?

RESPONSE:

Staff Secretary
Ext. 6-2702



U.S. SMALL BUSINESS ADMINISTRATION
WASHINGTON, D.C. 20416

OFFICE OF THE ADMINISTRATOR

August 19, 1996

MEMORANDUM FOR GENE SPERLING

FROM: JONATHAN KAPLAN *AK*
Special Assistant to the Administrator

RE: Welfare Reform Implementation:
SBA's Capital and Counseling Programs

To assist in your effort to draft a jobs initiative, I have outlined several Small Business Administration (SBA) capital and counseling programs that directly relate to job creation. These include the Microloan Demonstration program, welfare-to-work initiatives in Women's Demonstration Sites, One Stop Capital Shops, Business Information Centers, and the 7(a) business loan program.

These programs fit under the rubric of welfare reform implementation in that they address several obstacles facing individuals who are looking to enter the job market by starting an enterprise or working for a new microenterprise in their community. These programs provide the access to capital, business counseling, technical assistance, information, and high-tech resources that such individuals need -- and these programs can effectively target underserved urban areas.

Attachment

cc: Philip Lader
Ginger Lew

Pauline Abunathy



Welfare Reform: SBA's Capital and Counseling Programs

The Microloan Demonstration Program. The Microloan program targets lower-income individuals who are not otherwise able to obtain standard loans from financial institutions, largely due to credit problems or lack of assets. The program is available to a broad array of individuals, including those currently receiving public assistance. Through this program, SBA lends money to non-profit or quasi-public organizations which, in turn, re-lend the funds to small business borrowers in amounts of \$25,000 or less. The loans are made generally for small-scale financing purposes such as inventory, supplies and working capital, but not to pay existing debts. From September 1992 through September 1995, microlending intermediaries, funded by SBA, approved 3,449 loans amounting to \$36 million. The program also provides microenterprises with basic technical and management assistance, such as learning how to balance a checkbook and how to develop a business plan.

One of the goals of welfare reform implementation should be to encourage greater microenterprise growth in communities with large welfare populations. The Microloan program is a useful tool in this effort by providing a much-needed source of capital and jobs to these communities; the average microloan is \$10,800 and creates roughly four new jobs. This program could be either expanded or targeted to these communities to hasten microenterprise growth.

Work-to-Welfare Initiatives at Women's Demonstration Sites. Under the Women's Business Development Act, the SBA is authorized to establish three-year demonstration projects with private organizations to provide training, counseling, management assistance, and marketing assistance to small businesses owned and controlled by women. The 54 Demonstration Sites currently operating receive SBA grants for three years that must be matched by private resources. Each site is required to provide programs for socially and economically disadvantaged women. These programs are often innovative initiatives for helping to move women from welfare to self-employment.

The Women's Initiative for Self-Employment (WISE) in San Francisco and Oakland has several programs to help AFDC-eligible women. One program provides Spanish-speaking women with training in American business customs, bookkeeping, and entrepreneurial skills. Another program offers life-skills and business-skills training, child care, and transportation vouchers to low-income women. Some examples of businesses started by former AFDC recipients include child care centers, windshield repair, and housecleaning. Programs in both Wisconsin and Michigan provide venues for micro-enterprises owned by low-income women to sell their products and to learn from other owners who share space or equipment. For example, several Wisconsin clients operate a coffee cart located adjacent to a public library, and receive business counseling at the Demonstration Site. One or more of these projects could be expanded to the other 54 Demonstration Sites across the country.

One Stop Capital Shops. One Stop Capital Shops (OSCS) are SBA's major contribution to the Clinton Administration's EZ/EC effort. The OSCSs are managed by local nonprofit community development entities. There are currently four OSCSs open in Boston, Kansas City, the Kentucky highlands, and Philadelphia/Camden. A fifth OSCS will open in Baltimore this month.

The general functions of OSCSs are: to target SBA's full range of financial and technical assistance to economically distressed and underserved areas; to assist businesses in becoming bankable; and to complement the existing economic development efforts of state and local governments as well as to leverage resources from the private sector.

Business Information Centers. BICs provide small businesses with high-tech hardware, software, telecommunications, reference libraries, access to the U.S. Business Advisor and SBA Online, and Service Corps of Retired Executives (SCORE) counseling. SBA cosponsors these centers with private sector enterprises. Currently, there are 37 BICs open nationwide and an additional 14 Tribal BICs located on Native American reservations.

While BICs do not directly provide access to capital -- as OSCSs do -- they provide critical training and information for owners of new and established small businesses. The Administration could highlight the BICs as a part of an urban education and training program, particularly in conjunction with the SCORE program. In contrast with the OSCSs, which require a good deal of interagency and intergovernmental coordination, the Administration could more easily increase the number of BICs nationwide.

The 7(a) Loan Program: Minority and Women's Prequalification. The cornerstone program of the SBA, the 7(a) business loan program guarantees loans to small businesses that are unable to obtain private sector financing. Through this program, SBA guaranteed \$7.8 billion in small business loans in FY 1995 and is likely to guarantee slightly more than \$7 billion in FY 1996. These loans must be of such merit, or be so secured, as to reasonably ensure repayment to the lending institution. The lending institution may not make a 7(a) loan unless the financial assistance is not otherwise available on reasonable terms from elsewhere in the credit market. Under the guarantee plan, SBA agrees to purchase the guaranteed portion of the loan upon default by the small business.

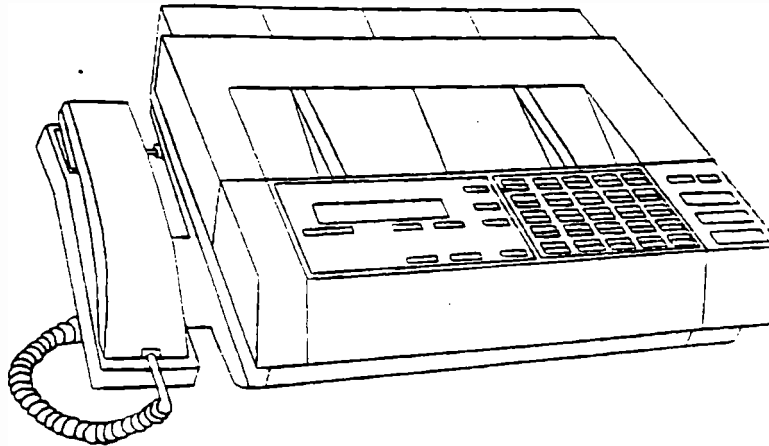
Importantly, the program features several sub-programs aimed at filling gaps in the capital markets. Two such sub-programs are the minority and women's prequalification loan programs, which enable SBA to prequalify a loan guaranty for a minority or woman business owner before she approaches a lender. The program focuses on an applicant's character, credit, experience, and reliability rather than her collateral. All other 7(a) eligibility criteria apply in the prequalification programs. These are both pilot programs available at a limited number of locations.

Due in part to these new pilot programs, the number of 7(a) loans going to minority-owned businesses since FY 1992 has nearly tripled and the number of 7(a) loans going to women-owned small businesses has quadrupled. This increase is also due to the advent of the Low Documentation, or LowDoc, program which reduces the paperwork involved in 7(a) loan requests of \$100,000 or less to a one-page application. LowDoc has been particularly effective in reaching start-up businesses.

One policy option is for the SBA to remove the minority and women's prequalification programs from pilot status and expand them nationwide.



FAX COVER SHEET



DATE: 5/1/96

TO: Gene Sperling

FAX NO: 456-2878

COMPANY: _____

PHONE NO: _____

FROM: Seth Harris

PHONE NO: 219-6197

FAX NO: (202) 219-9216

NUMBER OF PAGES INCLUDING COVER: 4

MESSAGE: _____

MEMORANDUM FOR GENE SPERLING

FROM: SETH HARRIS *SH*
DATE: MAY 1, 1996
SUBJECT: TEAM ACT AND THE MINIMUM WAGE

As I discussed with Jon Orszag this morning, we have heard rumors that Majority Leader Dole intends to bring the TEAM Act to the floor as early as this Monday. We have also heard that Senator Dole may attempt to include a minimum wage increase in the TEAM Act.

Attached is a letter Secretary Reich sent to Senator Kassebaum last month expressing the Administration's strong opposition to the TEAM Act. The letter offers a brief explanation of the bill and reiterates a veto threat first made by Vice-President Gore in a speech to the AFL-CIO Executive Council in February 1995.

Please let me know if you need any additional information.

VIA FAX

cc: Anne Lewis
Leslie Loble
Davitt McAteer
Geri Palast
Bill Samuel
Charles Smith

U.S. DEPARTMENT OF LABOR

SECRETARY OF LABOR
WASHINGTON, D.C.

APR 16 1996

The Honorable Nancy Landon Kassebaum
Chairman
Committee on Labor
and Human Resources
United States Senate
Washington, D.C. 20510

Dear Chairman Kassebaum:

We understand that your Committee may consider S. 295, the "Teamwork for Employees and Managers Act," on Wednesday, April 17. This bill would amend section 8(a)(2) of the National Labor Relations Act (NLRA) to broadly expand employers' abilities to establish employee involvement programs. I am writing to emphasize the Administration's opposition to S. 295, and to urge your Committee to not order the bill reported.

Section 8(a)(2) of the NLRA states that it is an unfair labor practice for an employer to dominate or interfere with the formation or administration of any labor organization. This provision protects employees from the practice of unscrupulous employers creating company, or sham, unions. Although S. 295 does not state an intent to repeal the protection provided by section 8(a)(2), S. 295 would undermine employee protections in at least two key ways. First, the bill would permit employers to establish company unions. Second, it would permit employers, in situations where the employees have spoken through a democratic election to be represented by a union, to establish an alternative, company dominated organization. Neither of these outcomes is permissible under current law nor should they be endorsed in legislation. Either one would be sufficient to cause me to recommend that the President veto S. 295 or other legislation that permits employers to unilaterally set up employee involvement programs.

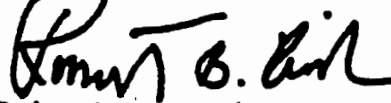
The Administration supports workplace flexibility and high-performance workplace practices that promote cooperative labor-management relations, but has concerns about the impact of the TEAM bill. Current interpretations of the law permit the creation of employee involvement programs that explore issues of quality, productivity, and efficiency.

It should be noted that the National Labor Relations Board has recently decided five cases involving employee involvement programs. In two of the five cases the Board found that the cooperative group at issue did not violate section 8(a)(2). The other three present classic cases supporting the concerns voiced above. Moreover, it appears that several more cases are pending before the Board which concern the relevant issue.

For the foregoing reasons, the Administration opposes the enactment of S. 295. If S. 295 were presented to the President, I would recommend that he veto the bill.

The Office of Management and Budget advises that there is no objection to the submission of this report from the standpoint of the Administration's program.

Sincerely,

A handwritten signature in black ink, appearing to read "Robert B. Reich". The signature is stylized with a large, looped initial "R" and a cursive "B. Reich".

Robert B. Reich