

Associated Industries of Florida

EMPLOYER ADVOCATE

MAY • JUNE 1996

Information
Superhighway:
**An Uncharted
Voyage**





THE VOICE OF FLORIDA BUSINESS



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EMPLOYER ADVOCATE

MAY • JUNE 1996

- 2** PRESIDENT'S MESSAGE
by Jon L. Shebel, President and CEO
- 3** PERMANENT TOTAL DISABILITY
by Shirley McCanney
- 5** GOVERNMENT'S ADDICTION TO GOVERNMENT MONEY
by Jonathan K. Hage

Cover Story

- 8** FORWARD TO THE FUTURE
by Jacquelyn Horkan
- 13** WHAT'S AHEAD FOR TELECOMMUNICATIONS IN 1996
by the Honorable Larry Pressler
- 18** KEEPING AN EYE ON GOVERNMENT THROUGH COMPUTERS
by Stephen B. Trickey
- 22** BUSINESS IN THE ERA OF SELF-GOVERNMENT
by Jeb Bush
- 25** A PARTNERSHIP IN COMMUNICATIONS
by Doc Kokol
- 26** BENEFITS OF A BALANCED BUDGET
by the Honorable Bob Graham
- 28** DEPRESSION COSTS BUSINESSES BILLIONS
by Scott A. West, M.D.
- 30** FIGHTING THE STATUS QUO
by Jacquelyn Horkan
- 32** JUVENILE JUSTICE ROLE MODEL DEVELOPMENT PROJECT
by Ron Brown
- 34** THE BUSINESS CONNECTION
by Gordon W. Lightfoot
- 36** TOOLS OF THE TRADE
by Marian P. Johnson
- 38** AN ACCOUNTING PRIMER
by David P. Yon



contents



by Jon L. Shebel,

President & CEO

A Plague of Timidity

American politics seem to be getting odder every day.

The people we call liberals are actually reactionary conservatives, dedicated to protecting the status quo represented by a large government that intrudes into more and more areas of private life, both economic and social.

The people we call conservatives are almost radically liberal, calling for greater freedom and less government intervention.

A GOP presidential candidate describes his philosophy as conservatism with a heart as he preys on fears with rhetoric calling for protectionism and isolationism. Although he is a member of the party that supposedly is a subsidiary of big business, he offers up large corporations as the evil stalking American workers.

Consumer advocates disparage a telecommunications bill that will help deliver the Information Superhighway that will put more

power in the hands of consumers than they've ever had before.

Citizens of the country with the largest and most successful economy ever known are convinced by the media and politicians that they've never had it so bad.

The pessimistic outlook of the anxious and timid seems to have taken control of far too many who are in the business of speaking to the public. It seems that so many of them have lost sight of dreams and hopes and are becoming obsessed with fears and lurking dangers.

I recently had a conversation with a naturalized American who came here from a former Communist bloc country. He is an entrepreneur who owns his own communications consulting firm. He, like most immigrants, is still amazed at the energy and opportunity he finds here in the land of the free. He is also dazzled by the abundance of ideas that spring from the vibrancy of our culture.

He represents one of the greatest assets immigration offers to us as Americans. Those who are newly arrived to our country can remind us of the vigor and goodness and possibilities offered by the American way.

We live in a nation born of a spirit of exploration, courage, compassion, and, most of all, faith in our own ability to craft a

brighter future for ourselves, our children, and our communities. I don't believe the American dream is a tattered fragment from the past that can't survive in the present. It just needs to be reclaimed.

And how do we do that? One way is accept the mantle of responsibility that comes with freedom. That mantle is woven with the fibers of morality and justice.

As employers, you are often criticized as a group for being greedy and uncaring. Sometimes the criticism is warranted in individual cases, but usually it arises from a misguided belief that businesses are in the business of sheltering employees. The profit motive attracts undue and unreasonable condemnation.

Business people have multiple obligations—first of all to those who invest money in their operations. No matter what others might think, that does not necessarily preclude honorable behavior. Nor is it an excuse to behave dishonorably.

As Jeb Bush explains in his guest column (see page 22), reclaiming our liberty by scaling back the power of government also means donning that mantle of responsibility for our actions. It is a moral imperative.

No matter what the purveyors of timidity may proclaim, I believe that it is a challenge the American people—and their employers—are ready to accept. ■

It seems that so many
of them have lost sight
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Permanent Total Disability

Prior to 1994, the filing of permanent total disability claims by claimants' attorneys was the "in thing" to do. The statutory definition of permanent and total disability received such a loose interpretation from the majority of judges that even minor injuries were declared permanent and total. Since benefit awards in these cases were so high, many carriers elected to settle claims at an inflated figure in order to avoid an adjudication of permanent total disability and the attendant attorney's fees.

With this trend negatively impacting the cost of the entire workers' comp system, the Legislature addressed the issue in 1993. Lawmakers determined that only claimants with catastrophic injuries were eligible for permanent total benefits. Legislators clearly delineated and defined what constituted a catastrophic injury. They further stipulated that in no other case, outside of the specific category of catastrophic injury, could permanent total disability be awarded. These changes and definitions were incorporated into the 1993 reform act.

Throughout most of 1994 and part of 1995, the changes appeared to work as the number of unwarranted permanent total

claims decreased. By the middle of 1995, however, the ever-creative claimants' attorneys found their loophole. The definition of catastrophic injury includes "any other injury that would otherwise qualify under this chapter of a nature and severity that would qualify an employee to receive disability income benefits under Title II or supplemental security income benefits under Title XVI of the federal Social Security Act" [section 440.02(34)(f)].

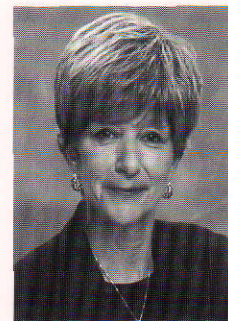
It should be noted that the statute does not say the individual must apply to and be accepted by Social Security. The injury must simply be one that might qualify for those benefits. Furthermore, the law does not address whether an individual also has to be someone who is eligible for disability benefits in order to qualify.

If the Social Security experts are not answering the question of eligibility, who is? The judges of compensation claims have taken on that responsibility. Most, if not all of them, have decided to use the Social Security "grids" to help them make the determination. These grids consist of a complicated formula developed by the Social Security Administration for its use in determining who is entitled to disability benefits. Even Social Security administrators and their examining

physicians have a difficult time in uniformly applying the grids.

Now that everyone has found the Social Security loophole in the definition of catastrophic injury, the claims for permanent total disability are as plentiful today as they were prior to 1994. At first, carriers attempted to defend themselves against questionable permanent total claims by relying on their understanding of the statutory definition of catastrophic injury, only to find judges were awarding permanent total benefits to individuals with impairment ratings as insignificant as 2 percent.

This development also means that a new expensive player has entered the workers' comp arena—the Social Security expert. The judges not only make their own interpretations of the Social Security grids, but the claimants' attorneys assist them by hiring Social Security experts as witnesses. If the carrier is now going to defend itself against one of these spurious permanent total claims, it needs to counteract the claimant's attorney's expert by hiring one of its own. The judge decides the victor in this battle of the duelling experts.



by Shirley McCanney,

AIFPCT Senior Vice

President, Claims



Once again, carriers are beginning to settle rather than defend claims whenever there is an allegation of permanent total disability. Understanding and using the intricate Social Security grids is a nightmare; when each judge can do his own interpreting, carriers believe the cards are stacked against them. Stacking the deck even higher against the carriers is one of those quandaries so typical to workers' comp.

Under the 1994 law, if a carrier decides that an injured worker is not eligible for permanent total disability benefits, the worker can file a request for assistance with the state Division of Workers' Comp. The carrier has 30 days to work with the state and the employee to resolve the differences. If the matter is not resolved within that time frame, the claimant's attorney can file a petition for benefits, which sends the matter to a judge of compensation claims for determination. If the judge decides in the claimant's favor, the carrier owes benefits and attorney's fees.

Here's the catch: No one has any responsibility to provide the carrier with a copy of the request for assistance. The state, the worker, and the worker's lawyer all know when the 30-day clock begins ticking. The only one left in the dark is the carrier who has no opportunity to use the 30 days constructively. The whole point of the 1993 reforms was to reduce the litigious and adver-

sarial nature of the workers' comp system. This loophole perforates that principle to the benefit of claimants' attorneys.

With the resulting confusion as to exactly when the carrier receives notice of a permanent total disability, many carriers are voluntarily accepting claimants as permanently and totally disabled early on in order to avoid paying a large attorney's fee later on down the road.

Although the current statute supposedly limits the attorney's fee, carriers fear that judges will soon begin eroding restrictions and we'll be back to the bad old days of high attorneys' fees based on inflated hourly rates and full permanent total exposure. Regardless of any limitations, an attorney's fee based on a potential permanent total exposure is still extremely high.

The Legislature's intent in the 1993 reforms was to tighten up the definition of permanent total disability, not to have judges of compensation claims making determinations as to whether or not an individual would be qualified to receive disability benefits from Social Security. If the trend of inflated settlement values, high awards of attorneys' fees, and additional expert witness fees is allowed to continue, we will again see the costs of the workers' comp system balloon. And that will ultimately result in spiralling rate increases.

Doesn't that sound familiar?



When all government, domestic and foreign, in little as in great things, shall be drawn to Washington as the center of all power, it will render powerless the checks provided of one government on another, and will become as venal and oppressive as the government from which we separated.

Thomas Jefferson

Government's Addiction to Government Money

Let's say you want some thing done in your community, perhaps a new bike path or an individually tailored workfare program. Would it occur to you to send the money first to Washington, D.C., where bureaucrats would take a cut, ask you to add 15 percent or more to the cost, and then fund a separate project you didn't ask for?

Welcome to the world of government economics. While Congress revealed its return to "good government" by purportedly eliminating unfunded mandates last year, federally-induced funded mandates continued to soar. Unlike unfunded mandates that force local and state governments to pay for the entire cost, funded mandates—little noticed intergovernmental grants-in-aid and statutory mandates—lure local municipalities into sharing the expense and rewards of tax-funded boondoggles.

Funded mandates have become addictive to states and politicians hungry to make political points with the local constitu-

ency by bringing the pork home "nearly cost-free." Politicians see it as a win-win deal. Congress and local politicians get credit for pork while splitting the price tag. Who cares if it's a bird sanctuary, not a bike path? Your local government only had to cover a fraction of the cost. Plus, the main expense is spread out over the nation, not just your neighborhood. Besides, the politicians know when to stop, right? So goes the rationalization of ad-dicts.

Today, federal mandates eat up more than 25 percent of state budgets and cost states hundreds of billions of dollars to maintain. By the year 2000, federally-induced mandates could exceed 50 percent of most states' budgets. This means fewer dollars for local education, law enforcement, and core government functions.

Furthermore, the states and localities being enticed to accept federal grants are less likely to spend the money wisely, less likely to spend it on programs that serve local interests, and are usually left to cover the projects'

large operating costs. This drives up local and state taxes, while inefficiency and mismanagement go unchecked.

Miami's now-infamous Metromover project offers a classic example of the way funded mandates waste money. Funded primarily with federal aid and some local dollars, the planners expected ten times more riders than actually rode the multi-billion dollar project when it was completed in 1984. President Reagan later remarked, "It would have been a lot cheaper to buy everyone a limousine."

Theoretically, a local or state government can refuse to apply for or accept federal grants. But reality suggests that state and local officials have become dependent on federal handouts to the point where few refuse, and most ask for more. Arizona, for example, was the only state not to accept Medicaid's federally-induced mandate at its inception in 1965. As more Americans became dependent on Medicaid as their sole source of health care, even Arizona caved in.



by Jonathan K.

Hage, Research

Associate, James

Madison Institute



Today, one of the keys to a balanced budget and to America's financial health is to control the growth of the same funded mandates the federal government once coaxed state and local governments to buy into.

And it doesn't end with the federal government. State government has become the younger brother in this bait and switch. Last year, for example, Florida's House of Representatives dangled \$40 million in grants before school districts that were willing to reduce first-grade class sizes. The catch was that many districts *might* have needed the dollars more for upper grades than for first grade; other districts lacked funding for the necessary additional classrooms. The result is a funded mandate where local governments pick up the tab for state and federal programs they often wouldn't choose and can't afford.

The practice of attaching *strings* to federal projects and passing on the costs to the state began with the Morrill Act of 1862. Congress forced states that wanted to sell federal land to use the pro-

ceeds to fund higher education. Until World War I, few additional mandates were levied on states. Then, under liberal interpretation of the Constitution's commerce clause, Congress began mandating massive highway acts and disabled veterans programs.

Although many causes were admirable, states slowly watched their autonomy dwindle as the federal government took over the functions clearly reserved to the states or the people.

Under President Franklin Roosevelt's administration and influence, the Social Security Act of 1935 alone established dozens of grants that still exist today. With the advent of the Great Society, the federal government released its most intrusive of mandates by adding Medicaid to the Social Security Act. Medicaid's cost to states has risen over 1,000 percent to some \$200 billion in 1995. Floridians paid nearly \$3 billion in 1995 for their share of Medicaid's mandates.

During the 1980s, the Reagan Administration tried to reverse this trend by rolling some 57 grant programs into 7 block grants. Their idea was to give

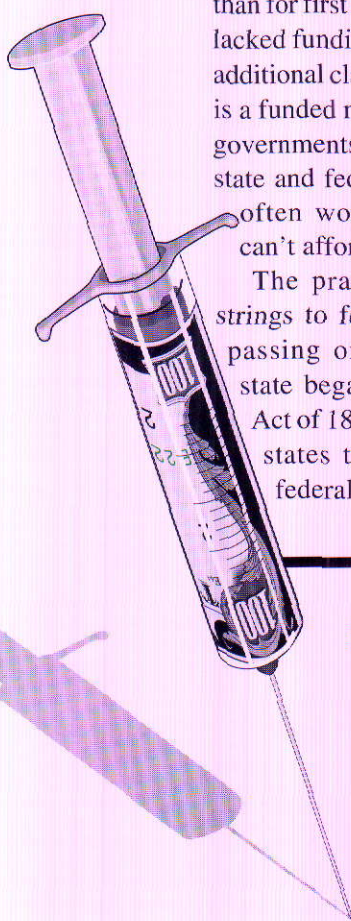
more flexibility and responsibility to the states. The same popular notion is being pushed today by politicians looking for an easy answer to reducing the deficit and the mandate strings. Unfortunately, block grants still keep the federal middleman in business and waste billions on unaccountable programs.

Today, there are more than 500 grant-in-aid programs, ranging in dollar value from \$10 million to more than \$100 billion per year. According to the U.S. Advisory Commission on Intergovernmental Relations, the 102nd Congress alone passed 38 laws that significantly affected state and local costs. Although many of these programs symbolize Washington's efforts to do something about perceived problems, all of them share in the inefficiency and mismanagement that evolve from large programs that lack public accountability.

Backers of funded mandates point to the federal government's role in creating "needed and worthwhile" programs. Supporters say that many of these programs wouldn't have been developed had Washington not mandated and funded them. Critics say that's exactly the point.

Underneath this debate, two distinct philosophies emerge. One envisions the federal government playing an ever-increasing role in local affairs; another envisions a return to the proper roles of the various levels of government.

Here are some actions that would restore the proper roles of the various levels of govern-



Funded mandates have become addictive to states and politicians hungry to make political points with the local constituency.



ment and help break the chain of government's dependency on government.

- Congress should return to the states and local governments their rightful duties and limit the federal government to legislating on national issues.
- Congress should reduce federal taxes by an amount equal to the cost of programs better handled by states and localities. All federal mandates, including grants-in-aid, should be fully funded if they are of national importance.
- Florida's Legislature should adopt an act requiring members of the state's congressional delegation to appear annually before a joint session to discuss problems related to federal mandates.

Throughout much of American history, and especially since the New Deal, the federal government has increasingly encroached upon the fiscal and constitutional prerogatives of state and local governments. Today, this imbalance has reached a point of crisis. Ultimately, only a concerted effort by all states to reassert their 10th Amendment rights will reverse this trend: "The powers not delegated to the United States by the Constitution, nor prohibited to it by the States, are reserved to the States respectively, or to the people."

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The Battle of ideas

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The goals of the Institute are twofold: 1) to influence the public policy process of Florida and the nation; and 2) to educate American and world leaders about the economic and moral superiority of capitalism. The Institute achieves its goals through:

- **Scholarly research**
- **Advocating new ideas**
- **Educational programs**
- **Projects that advance innovative policy alternatives**
- **Fostering debate and broad citizen participation in the public policy process.**

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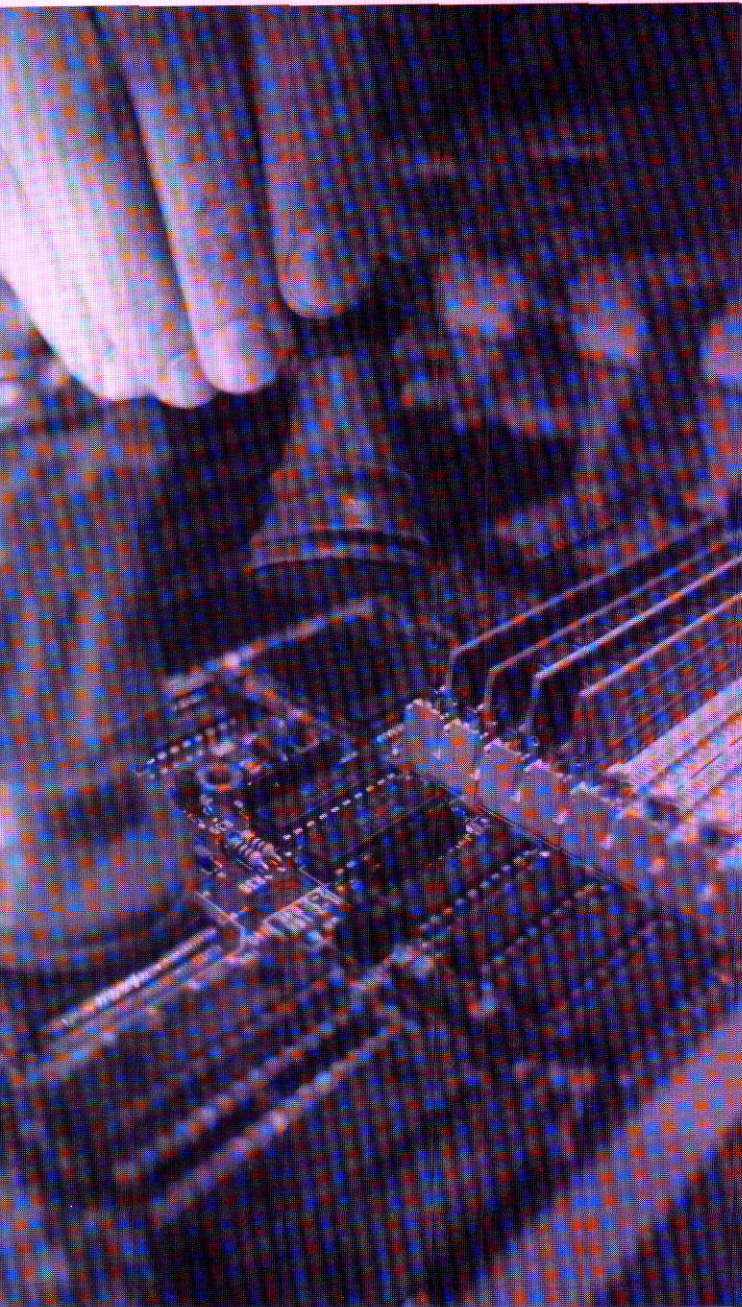
For information about how you can add your voice to the battle of ideas, please call the James Madison Institute at (800) 376-1119.



Because things are the way they are, things will not stay the way they are.
Bertolt Brecht, German Dramatist and Poet (1898-1956)

Forward to the Future

by Jacquelyn Horkan, Employer Advocate Editor



John Adams travelled by horse, lit candles to illumine the dark, and dipped his quill pen in an ink well when he wanted to communicate with someone far away. In 1765, while America was still a British colony, years before he would take office as the second president of the United States, Adams picked up that pen and wrote, "Let us ... cherish, therefore, the means of knowledge. Let us dare to read, think, speak, and write. ... Let every sluice of knowledge be opened and set a-flowing."

Were he alive today, John Adams would rejoice at the thought of the sluices of knowledge about to set a-flowing.

Early in February of this year, Congress took a step that may prove the key to the development of the much-anticipated Information Superhighway. With the enactment of the 1996 Telecommunications Act (see related guest column on page 13), the American communications industry gained freedom from a regulatory jungle that has stifled development of that network.

As usually happens, government was the last partner to adopt a forward-looking model of behavior. Private individuals who make the purchasing and production decisions in the mar-

ket began the transition to the Information Age years ago when affordable personal computers hit the storerooms.

There was no one in command central dictating the advancements in PC technology. They just happened through the natural marketplace interactions of consumers and producers. Those same natural laws will guide the maturation of the Information Superhighway.

President Bill Clinton promises that "technology is going to liberate Americans and bring them closer together." In his recently published book, *The Road Ahead*, Bill Gates takes a different, and probably more accurate, view.

Gates writes, "The network will draw us together, if that's what we choose, or let us scatter ourselves into a million mediated communities."

That's the point. Millions of individuals, acting on their own, will develop the network organically, naturally, and logically.

Right now, the popular conception of government doesn't recognize natural market phenomena. All human interactions have to be engineered like the Sunshine State Parkway; designed, planned, and built from the ground up. But humans are



not bridges and the Information Superhighway won't be constructed from a blueprint.

For that reason, some members of the political class may soon find themselves reluctant and confused accomplices in the inevitable changes that will flow from the bracing tonic of competition.

Creative Destruction

How far are we from the arrival of the Information Superhighway? What will happen when it gets here? What will it be like? No one can answer those questions. Billions of dollars and creative hours will have to be spent before the highway opens for traffic.

The highway's development combines the possibility of great rewards with enormous risk. Before the first digital signal can hurtle down the network, businesses will have to build the infrastructure and develop platforms, hardware, and software to deliver still-undiscovered applications. Some will succeed, some will fail.

The highway will progress in fits and starts, constantly evolving. It will first be available to wealthier individuals and families; as the technology improves and grows in popularity, prices will fall.

The chief of staff to the chairman of the Federal Communications Commission recently described the purpose of his agency. "We're about how do you get this incredibly important segment of the economy work-

ing in a way that the public interest is served. And that's not decided in a day or in a single decision."

It's also not decided by the edicts of a few bureaucrats sitting in Washington, D.C., but that's the machine age mentality. A small band of enlightened regulators are better equipped than the public to define the public interest.

As time goes on, the Information Superhighway will seduce politicians and bureaucrats into the belief that they should control it. They've already made a start by regulating content. And they're not likely to stop there.

The talk of information haves and have-nots is a beacon for future action such as endowments for "worthy" groups to develop programming that serves the public interest—whether the public is interested or not.

It's only a matter of time before someone suggests a subsidy program to give computers to the poor, thereby establishing an entitlement to computers.

At some point, some industries may feel squeezed by technological progress, just as buggy-makers suffered when Henry Ford began mass-producing automobiles. They'll want government to shield them from the forces of the marketplace.

It's up to all of us to resist government blandishments to deliver security and fuzzy social equity aspirations at the expense of naturally-occurring progress.

Taxing the Path or the Service

Coping with the transition to governing in the Information Age will bring more than new challenges. Officials will also have to conform the application of existing laws to changing circumstances. The issue of taxability of Internet access services is one of the first examples of this in Florida.

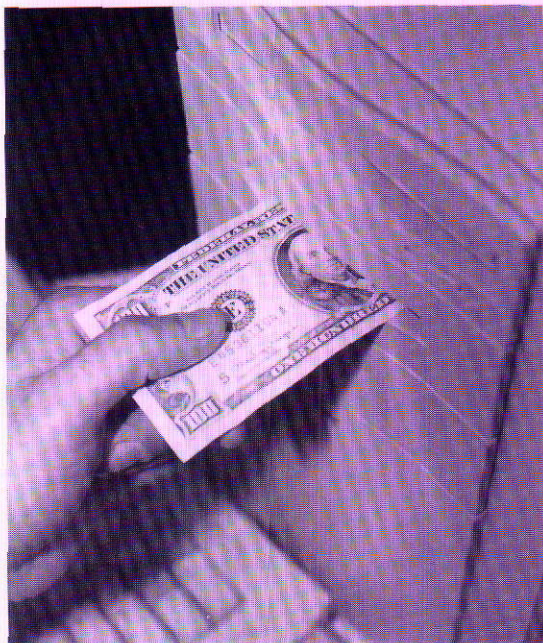
Earlier in the year, AIF alerted members to the Department of Revenue's (DOR) plan to begin collecting the 2.5-percent gross receipts and 7-percent telecommunications sales taxes from providers of Internet access and e-mail services. The gross receipts tax would apply to all users; only business users would pay the additional telecommunications sales tax.

DOR finds its authority to collect these taxes in Chapter 203 of the *Florida Statutes*. The law clearly says that "computer exchange services" are taxable. The phrase, "computer exchange services" was inserted into the law in 1984 when the entire gross receipts statute was rewritten to conform with the break-up of AT&T.

When the gross receipts law was revised in 1984, the Internet was not a public network. The World Wide Web did not exist. These developments were not contemplated by the drafters. So DOR is left to interpret language that may not say what it means.

Randy Miller, former execu-

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tive director of DOR and current tax consultant to AIF, was on the commission that developed the 1984 statutory language.

"The access charge to get into the Internet is provided over an already-taxed communications path," he explains. "That's our argument. The intent of the Legislature was not to tax services provided through a taxed telecommunications path."

In fact, as the law is now written, the department could go all the way back to 1984 to collect taxes on these services. Instead, revenue officials have decided to wait for the Legislature to act. If lawmakers take no action, the department will begin collecting the taxes prospectively in July of this year.

"The black letter of the law guides them," says Miller, "but DOR has been very accommodating in this case."

Larry Fuchs, current executive director of DOR, makes it clear that he has no stake in deciding this issue. His agency does

A capital gains tax cut will free up more investment dollars that can flow into the companies developing the necessary technologies.

not set tax policy; DOR just implements it. He is concerned with a bigger issue.

"The product and product mixes that are in the marketplace now, and what will be coming in the immediate future, don't fit in the definitions that exist in the statute," he says.

Fuchs would like to see the Legislature and industry spend a period of time reviewing the gross receipts law so that they could develop a clearly stated policy on the taxability of communications services.

As the law is now written, gross receipts taxes are imposed "on the privilege of conducting a utility business," including telecommunications service. In 1984, telecommunications service primarily meant using phone lines to place phone calls. For tax purposes, the path and the service were the same.

Today, all manner of enhanced services come over the taxed line. In the future, you may connect your television to your phone line or you may receive your phone calls over your cable T.V. line. So how do we know what to tax?

Miller believes the solution is simple: tax the path, not the service. Fuchs does not back any prescription as long as it clearly describes the state's tax policy. That would keep his agency out of the business of producing long ribbons of red tape, then trying to defend them in administrative hearings and courtrooms.

"That's not an efficient way to do business," Fuchs says. "I think it's better for state government and for industry to decide the issues in advance, agree on a scheme of taxation, and then stick to it for a reasonable period of time."

Investing in Investment

One of the most volatile issues surrounding the federal balanced budget debate is the proposed capital gains tax cut. President Clinton and his allies believe a reduction in the tax immorally benefits the rich at the expense of the poor. Others believe that we should eat our vegetables (in the form of reduced spending) before we get our dessert (tax cuts).

Of course, most of us have



already eaten our vegetables by earning our money and we've taken a second helping by paying taxes. As far as the class warfare argument goes, "regular" people will also benefit from a capital gains tax reduction because they invest through 401(k) and pension plans.

A capital gains tax cut may also be a crucial strategy for building the Information Superhighway. It will free up more investment dollars that can flow into the companies developing the necessary technologies.

The Information Technology Association of America (ITAA) is a trade group representing companies from all facets of the nation's information technology industry. ITAA supports a reduction in the capital gains tax as a vehicle to increased development of technology, but it's just one facet of the whole.

"Right now, U.S. information technology companies are the world leaders in developing new technologies," says Carol Cayo, ITAA's director of government affairs. "The government can slow that down and make U.S. companies less competitive in the world marketplace. There are other countries that provide monetary incentives and have fewer roadblocks."

Cayo is working to get Congress to re-enact and make permanent a 15-year-old "temporary" research and experimentation tax credit. In a highly volatile industry such as information technology, research and experimentation are crucial to survival.

"The tax credit has really enhanced the competitiveness of U.S. companies in the world economy by encouraging them to do more research," says Cayo.

ITAA is also fighting a battle with the Internal Revenue Service over the agency's myopic interpretation of the foreign sales corporation tax benefit. This law provides a partial exemption to U.S. businesses for the income they derive through the sale, lease, or rental of property exported outside the U.S.

The IRS has decided that film, video, and music products exported with a right to reproduce are eligible for the partial exemption, but software products are not. The IRS says the tax benefit only applies to entertainment products; the statute makes no such distinction.

Software is often sent overseas for duplication for the simple reason that people who speak a foreign language can do a better job at translating the software into that language. The tax benefit also helps U.S. companies compete with foreign producers of similar products.

This tax benefit was enacted about 20 years ago when exports and sales of software represented little more than a blip in the national economy. Unfortunately, government policy has not kept up with innovations in the private sector. In fact, one pundit claims that had government kept pace with the improvements in computer technology, Washington would now have 100 fed-

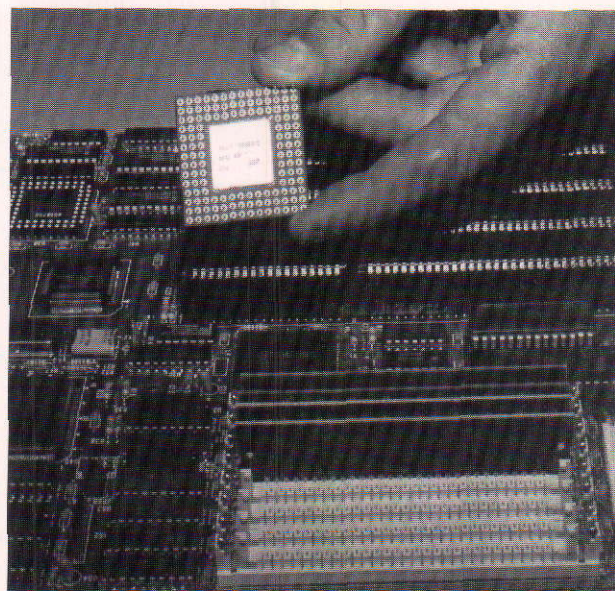
eral employees and an annual budget of \$100,000.

Producing Knowledge

Technological breakthroughs won't magically appear by wishing for them. They are the result of hard work made possible by the application of resources. Every policy-maker in this state and country has to realize that information technology represents our nation's major source of economic growth and job creation.

Nicholas Negroponte, one of the leading experts on the digital revolution, predicts that America will soon import atoms and export bits. In other words, manufacturing and assembly will continue to decline as a proportion of our national income; the development and sale of knowledge will take its place.

For instance, copying software onto discs and packaging those discs is a minuscule part of Microsoft's cost of doing





business. The real money is made—and spent—during the long hours applied to developing the information that goes on those discs.

Manufacturing and other blue-collar jobs will not become obsolete, just more scarce. Two of the most important skills for the future are literacy and problem-solving. You won't need to be a computer-genius, but some-

one who can't read a bus schedule will meet with little more than frustration while searching for employment. That's not a new trend in this country, but we've been slow to respond to it.

It's a change that makes reform of our schools a top priority and perhaps an issue of national security. The Information Technology Association of America opposes limits to legal immigration because of the affect such proposals would have on ITAA members. Technology companies rely on legal immigration to supply the skilled workers they often can't find among the products of the American education system.

A Rebirth of Optimism

To a certain degree, political reaction to the development of the Superhighway may give us our best measure of how fully our elected officials and we, as citizens, have accepted the so-called "conservative revolution."

Supposedly that revolution arose from Americans' desire to reverse a long trend toward more government and less freedom. But if you look back 60 years to the genesis of big government, you find the premise that gave birth to it: a desire for economic security and the promise that government could deliver it.

Here we are in 1996, an elec-

tion year, and Americans apparently haven't gained that long-sought-after security. Listen to the rhetoric in the presidential races. Politicians still pander to fears and pledge to take uncertainty out of life.

Liberty is a wonderful abstract idea, but sometimes it's hard to see how it puts food on the table. The Information Superhighway glimmers through a mirage of hype, suggesting a future of vibrancy, progress, and freedom. But, to twist a metaphor, in every silver cloud there's a dark lining.

The voices of pessimism believe that the pending changes of the Information Age will destroy jobs. That's true, but it will also create more jobs and more wealth and more opportunity, just as the American economy has done since the first European immigrants brought the first foreign import to this land: economic and political freedom.

The benefits of the Information Age will come with some costs. Industry upheavals, job losses, and social transformations are just a few of the natural byproducts of a dynamic economy and culture. Security may be comfortable, but growth and change rarely are.

How will government react to the fluctuations and uneasiness to come as we make the transition from an industrial economy to an information economy? That all depends on whether we the people are ready to accept liberty at the price of a little security. ■



What's Ahead for Telecommunications in 1996

Editor's Note: On Jan. 10, Sen. Pressler visited Tallahassee and came by AIF headquarters to meet with members and staff. As chairman of the U.S. Senate Commerce Committee, he was the primary author of the recently-enacted Telecommunications Act. We asked him to explain some details about the new law and its effect on the development of new information technologies. Portions of this article are reprinted with the permission of Roll Call magazine.

Historic. Massive. Landmark. Sweeping. Adjectives such as these were often used by journalists and lobbyists alike to describe the recently-passed Telecommunications Act of 1996. In fact, they are used so often that I think some began to wonder if we had placed them in the bill's formal legislative title.

The truth is, such adjectives got a lot of ink because they captured the scope and direction of this bill. Congress had been so long about the business of updating the nation's antiquated

communications laws that, when we were finally able to get a bill moving, it had no choice but to be "historic, massive, and sweeping" if it were to have any chance of coming close to keeping up with the pace of technological developments.

Passage of the Telecommunications Act of 1996 was my highest legislative priority in the first session of the 104th Congress. On Feb. 8, 1996, that priority became law.

Thanks to my bill, the communications industry will see an explosion in new investment and

development. Who are the winners? The consumers. There will be more services and new products at lower costs. All this economic activity will mean new jobs.

Competition is the key for this development. My bill unlocked the regulatory handcuffs restricting the communications industry.

Competition means small businesses can easily enter into the market. For example, an M.B.A. student in Gainesville can start the computer on-line service that he has always dreamed about.

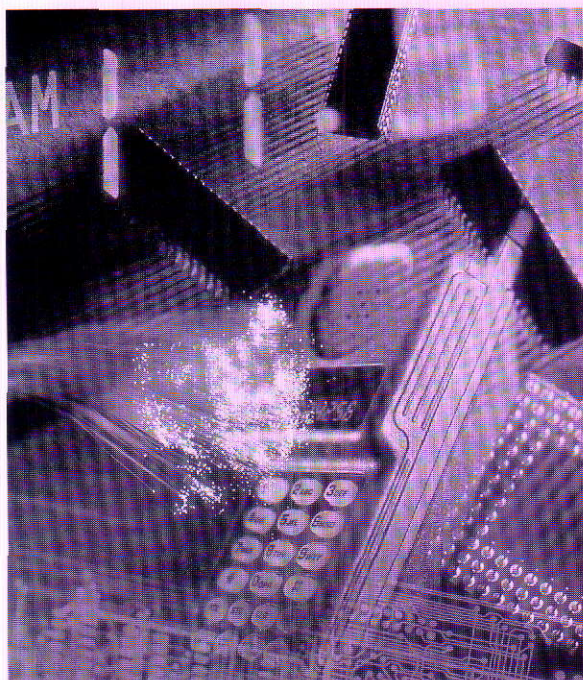
Competition brings lower costs. And the universal service provisions of my act means citizens in small towns and rural areas will enjoy the same savings as folks in big cities. A couple who lives in New Port Richey will be able to call their daughter, a student at Boston College, at the same long-distance rate that applies to calls made by their friends in Tampa. Someone in Madison will be able to surf the Internet for the same access charges as someone in Jacksonville.



**by the Honorable
Larry Pressler, U.S.
Senate, (R-S.D.)
and Chairman,
Committee on
Commerce, Science,
and Transportation**



Sen. Pressler (left foreground) meets with AIF members and staff; Clockwise from left: Sen. Pressler; Robert Coker, U.S. Sugar Corp.; Jim McDowell, Publix SuperMarkets; Pete Breslin, AIF; and Jon Shebel, AIF.



Passage of the telecommunications bill will bring a whole host of new services and products that haven't even been dreamt of yet.

Competition and advanced communications technology means better medical care. A doctor in Palatka will be able to consult with specialists at Johns Hopkins in Baltimore. And a small health clinic in Fort Myers will be able to "partner" with big-city medical teaching hospitals and university research centers to provide better health care for its patients.

Competition means new products. An elderly woman living in Daytona Beach can continue to live in her own home because advanced monitoring equipment connects her with emergency and health care services. She can also do most of her shopping from home.

Competition means better education opportunities. A high school student living on a farm in Polk County will be able to "check out" books from a library in Paris. And a part-time college student living in Port Charlotte will be able to finish his degree and continue his full-time job by

accessing Florida State University telecourses that are broadcast on his local cable station.

My bill means advances in telecommunications technology that will bring improved quality of life to citizens in urban and rural communities alike. Indeed, the passage of the telecommunications bill will bring a whole host of new services and products that haven't even been dreamt of yet.

But we're not done. Passage of the act does not mean Congress can now wait another 62 years before looking at telecommunications issues again.

On the contrary, we must regard telecommunications reform as a work in progress. Although our legislative calendar may be somewhat compressed this election year, the list of telecommunications priorities facing the second session of the 104th Congress is as impressive as it is imperative.

Telecommunications Act Oversight

First and foremost, Congress needs to make sure that what the American consumer won on the legislative battlefield isn't lost on the regulatory drawing board. In other words, we need to make sure the Federal Communications Commission (FCC) carries out the intent of Congress as it implements the tenets of the Telecommunications Act.

This is no small task. Nor is it frivolous. There were many hard-fought battles by various industry segments during the

drafting of the Telecommunications Act. Now that the scene shifts from a legislative to a regulatory venue, the temptation to refight lost battles beckons many an interest group.

Congress must be vigilant and hold fast against the possibility of regulatory revisionism as the FCC proceeds with its rulemaking processes.

The battle flags already are flying. In the rules intended to accelerate the ability of Regional Bell Operating Companies (RBOCs) to offer long-distance service outside their monopoly operating areas, the FCC has proposed a rule that would require the RBOCs to set up separate subsidiaries to provide such services.

As I pointed out in a recent letter to FCC Chairman Reed Hundt, this is totally contrary to the provisions in the Telecommunications Act that specifically exempt the RBOCs from having to provide out-of-region, long-distance services under a separate subsidiary.

In another potential regulatory overreach, the FCC is considering requiring broadcasters to increase the amount of air time dedicated to public-interest programming, as well as possibly requiring more children's programming. Such government-mandated content control would be enforced through the station license renewal process.

The issue here is not whether more children's and public-interest programming is desirable, but whether these goals should be

mandated by the FCC as part of the broadcast license renewal process.

In fact, Congress was quite clear about its intentions in the license renewal provisions of the Telecommunications Act. The act requires license simplification, not license complication. The FCC's direction in carrying out this provision seems to be headed toward re-regulation instead of deregulation. The latter approach is what Congress clearly intended.

As to the issue of program content, I think the best public policy is to keep the government's involvement to a minimum and let the industry and the public determine the content of programming. I support providing parents with the necessary technological weapons, such as the "V-chip," to help them control what their children see on television. Of course, the ultimate "V-chip" already exists on every television set in America—the on-off switch.

Currently, a plethora of flexible, quickly evolving, and market-driven parental blocking technologies are available. Some are already incorporated into many televisions and VCRs. Others are sold as separate add-on devices. We must be mindful that government does not dry up the market for such devices by mandating one technology over all others.

FCC Reform

Another major focus for the Senate Commerce Committee this year will be to examine the

overall performance and needs of the FCC as it carries out its duties. We will look closely at the agency's repeated requests for additional money to implement the Telecommunications Act.

As I have told Chairman Hundt, I, for one, am concerned about the FCC's alarms over possible budget shortfalls and the calls for more personnel and other resources to carry out its mission.

The FCC has requested a budget of approximately \$224 million for FY 1996, supporting some 2,300 employees. This is roughly two-thirds more than the FCC's budget in 1993 (\$134 million) and includes an additional 600 employees over the 1993 staffing level (1,700). In fact, since 1992, FCC expenditures have risen at a compounded average annual rate of 15.2 percent compared to an average of 10.4 percent for the communications industry itself.

Should the growth of a federal agency outstrip the very industry it regulates by a margin of three to two? No, particularly in an era of federal budget austerity, in which the watchwords for most other federal agencies are "smaller but smarter" government.

Clearly, Congress will have to look closely at the FCC during this second session and see what efficiencies can be realized in its operations.

Overview of Federal Spectrum Policies

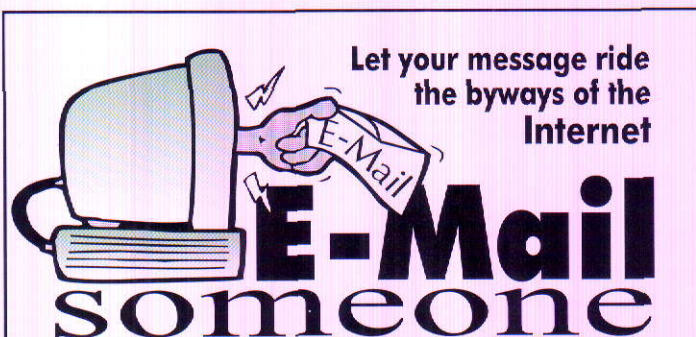
Another major task facing

Congress this year is a thorough examination of federal policies regarding the use and allocation of the electromagnetic spectrum. The electromagnetic spectrum, generally defined as the range of electromagnetic frequencies between three kilohertz and 300 gigahertz, is one of the nation's most valuable natural resources.

I believe the federal government has a responsibility to ensure the efficient management of this resource to provide adequately for the national defense, the protection of the taxpayer, and the continued maintenance of America's technological leadership in the world.

The full Committee on Commerce, Science, and Transportation began holding hearings on this complex subject in March. We are examining the





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government's management and allocation of the entire spectrum, not just that small portion used for radio and television broadcasting. This includes the following uses.

- Civilian emergency services
- Scientific and satellite uses
- Merchant marine emergency and navigation uses
- Aviation uses
- Truck and railroad uses
- Cellular phone and personal communications services
- Military and intelligence uses
- Specialized data-transmission uses, such as telemedicine services (providing long distance medical monitoring and patient diagnosis)

Much of the focus of this spectrum review naturally will gravitate toward the issue of digital television and by what manner portions of the finite spectrum should be allocated to broadcasters for the development of digital transmission.

I have long been a supporter of protecting the taxpayers in allocations of the spectrum by the FCC. In fact, I proposed an auction earlier in the year as part of the budget reconciliation process.

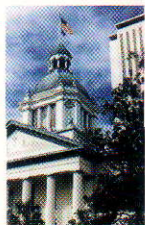
While I believe the Telecommunications Act of 1996 clearly did not mandate any giveaway of the digital spectrum, it is important that Congress revisit this issue this year and establish a clear national policy on spectrum assignments to the private sector.

Other Issues

There are a number of other telecommunications issues that will occupy the committee's attention this year, including a look at whether current rules restricting foreign investment in U.S. broadcasting are good for the nation. It may well be we should allow more foreign investment in U.S. broadcasting, provided U.S. broadcasters have the same investment rights overseas. This could open more foreign markets to U.S. telecommunications products and services. The committee may hold hearings this year on this issue.

The committee also will consider reforming the Communications Satellite Act of 1962. When that act was passed, no one thought private companies would launch and operate satellites. Today, we have private companies competing with the international, government-owned satellite systems, INTELSAT and INMARSAT. We need to re-evaluate how competition could operate in the international satellite market.

Historic. Massive. Landmark. Sweeping. Indeed, the Telecommunications Act of 1996 was a major legislative step forward in modernizing America's dated telecommunications laws. But we cannot rest on our legislative laurels if Congress is to provide a regulatory infrastructure that helps rather than hinders America's telecommunications industry. Our work has just begun. ■



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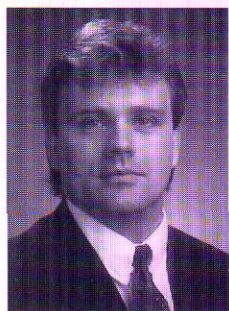
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Keeping an Eye on Government Through Computers



by **Steven B.**

Trickey, Senior Vice

President & Chief

Operating Officer,

Florida Business

Network

For years, it was almost impossible to get timely, up-to-date information from a government entity. The jokes were endless and words like, "black hole" and "lost forever" were commonly associated with such requests for information.

Technology has increased efficiency in all sectors, including government. While government may be behind the curve in taking advantage of technological potential, advancements have been made. In the last five years however, the pace of progress across the nation has quickened and Florida is taking the lead.

Up until the late 1980s, most of the information coming from Florida's Capitol was transmitted by way of the U.S. mail. Then, the computer began to make its presence known. In 1992, AIF created the Florida Business Network (FBN). Although other on-line systems already existed that would allow computers users to get governmental information, FBN's on-line service changed the boundaries of the type of information that was offered.

Before FBN, all a user could access was basic bill history with bill numbers, titles, sponsors, and the actions taken on the bill. This is good and valuable information,

but for someone who doesn't make his living following the Florida Legislature, it's not enough.

FBN combined the basic bill data with supporting information, such as how a legislator voted, and copies of press releases and newspaper articles about the issues. The system also was designed for those with little or no experience with computers.

In its first four years, FBN's user community has tripled. People from all over the country, in every imaginable segment of business, have signed up with FBN. With all the advancements that have been made to FBN over the years, anyone with a computer, modem, and phone line can very easily purchase a subscription that allows him to keep very close tabs on his legislator without ever leaving the home or office.

FBN revolutionized the governmental on-line industry in Florida. Soon, competitors had to simplify their programs to match FBN's ease of use. Then, they had to begin tracking down the same information FBN included: which legislators sponsored which bills; how they voted; what committees they were on; complete directory in-

formation, including staff, addresses, and phone numbers; who legislators ran against in their last election; how many votes they got; and even how much money they raised and where they got it from.

This data base on campaign contributions that was the latest legislative information frontier in Florida. Up until 1994, if you wanted to know who gave money to what candidate and how the candidate spent that money, you had to make a trip to the Division of Elections on the 18th floor of the Capitol. There you would wait while someone found the information you needed and made a copy of it.

Knocking down some of these barriers to accessing public information wasn't easy, but it looks as if it is paying off. In the past several years, FBN has had visits from all kinds of government officials and programmers interested in how we provide all this information in one platform.

And more than that, they were curious as to why we did this. While FBN is a service that sells subscriptions to support its efforts, the main reason for its creation was to give citizens *all* kinds of information about their government. We wanted every

piece of information produced to be made easily accessible to *anyone* who wanted it. Today, through the advancements of the FBN system and the state's presence on the Internet, a whole new world of information is now available.

Two years ago, when the Internet was really becoming a premier medium of access to information, Florida was one of the worst states in providing easy access to government information. Today, Florida is one of the best. Secretary of Management Services Bill Lindner was one of the first government officials who pushed, dragged, and shoved Florida government onto the Internet. His creation of the Florida Communities Network gave everyone in the world access to important information about Florida's communities, businesses, and government.

Today, there are Internet sites for the Supreme Court, cabinet offices, and almost all state agencies. Each site is filled with more information than you ever thought possible. The Florida Legislature has created a page on the World Wide Web that gives information on legislation, statutes, and lobbyists.

In a matter of five or six years, information overload has become more of a problem than lack of information ever was.

Many might ask, "Is all this information necessary?" The answer is, "Absolutely!" We should live in a society where citizens can find information on their government easily and



We should live in a society where citizens can find information on their government easily and quickly.

quickly. Furthermore, it's just plain healthy for our government officials to have the attitudes of Bill Lindner of the Department of Management Services, Secretary of State Sandra Mortham, and David Rancourt of the Division of Elections who, instead of asking why should we, have said why *shouldn't* we.

The more information that is available to more people will allow for better decisions by those

who vote for elected officials and those who vote *as* elected officials.

Finally, the value of today's high technology in information access will hopefully supplement one thing that is even more important than technology: People talking to people about problems and solutions. Now, with all the information available, they will certainly have something to talk about. ■



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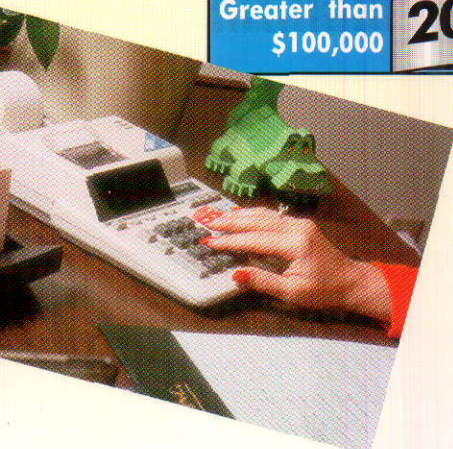
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JUMBO RETRO RATING PLAN RETURN PREMIUM TABLE

Premium Range	Incurred Loss Ratio					
	Less Than 10%	10% to 19%	20% to 29%	30% to 39%	40% to 49%	50%+
	Percentage of Return Premium					
Less than \$5,000	5%	3%	3%			
\$5,000 to \$10,000	6%	5%	3%	3%		
\$10,000 to \$20,000	8%	6%	5%	3%		
\$20,000 to \$30,000	10%	8%	6%	5%	3%	
\$30,000 to \$50,000	12%	9%	7%	5%	3%	
\$50,000 to \$75,000	15%	12%	9%	6%	3%	
\$75,000 to \$100,000	17%	13%	10%	6%	3%	
Greater than \$100,000	20%	15%	10%	6%	3%	

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Business in the Era of Self-Government



**by Jeb Bush,
Chairman, The
Foundation for
Florida's Future**

In his State of the Union address last January, President Bill Clinton proclaimed that "the Era of Big Government is over." Making this statement must have been like trying to cough up a porcupine. For the father of government-controlled health care and other big government programs, it certainly had to hurt coming up.

For conservatives, who for years have been trying to knock down the walls of big government, the news was not cause to declare victory. The reality is that big government is still the standard in this country. It is now, however, only a question of time before that era ends since we simply cannot afford the government we have. So, let us ask these questions today: What will a world without big government look like? And, equally important, what impact will the retreat of big government have on business?

In the short run, less government should mean fewer regulations, lower taxes, and less corporate welfare. That is good news. In the long run, less government must mean more self-government as the surest way to solve problems. That is also good news.

With freedom from big government comes responsibility.

Are the owners, managers, and workers of Florida's businesses prepared for the increased responsibility that will be necessary as we free ourselves from the burdens of big government? The answer to that question rests on the character of the individuals in the business world.

Neither capitalism as an economic system nor business as an organizational structure are inherently moral or immoral. But individuals acting immorally within these institutions can and often do take advantage of freedom to hide from their responsibility. This should give many of us cause for legitimate alarm.

Before we embark on this experiment in increased self-government, we must give serious thought to the way we interact both in the workplace and the marketplace. Recent indicators suggest that we have moved away from well-established prin-

ciples that once guided business practices and employment relations. Some of these statistics foreshadow what might only get worse in a self-governing society if we do not take care to address our character and virtue.

One indicator that is particularly telling is the proliferation of lawsuits in our society. With the exception of dissolution proceedings, few of these lawsuits involve individuals suing individuals—most involve somebody suing a business or a business suing another business. In Florida alone, since 1971, the number of lawsuits filed in federal courts has increased by 187 percent. The number of lawsuits filed in Florida's state courts since 1978 has increased by 78 percent.

These numbers suggest different things. First, there has been a rise in legitimate lawsuits. More people are now willing to go back on their obligations and infringe on others' rights. More people now break contracts than ever before. In the federal courts, for example, the number of contract disputes involving businesses increased by 232 percent between 1960 and 1988; during the same period, the number of tort cases—personal injury and product liability lawsuits—increased by 128 percent.

Second, there has also been



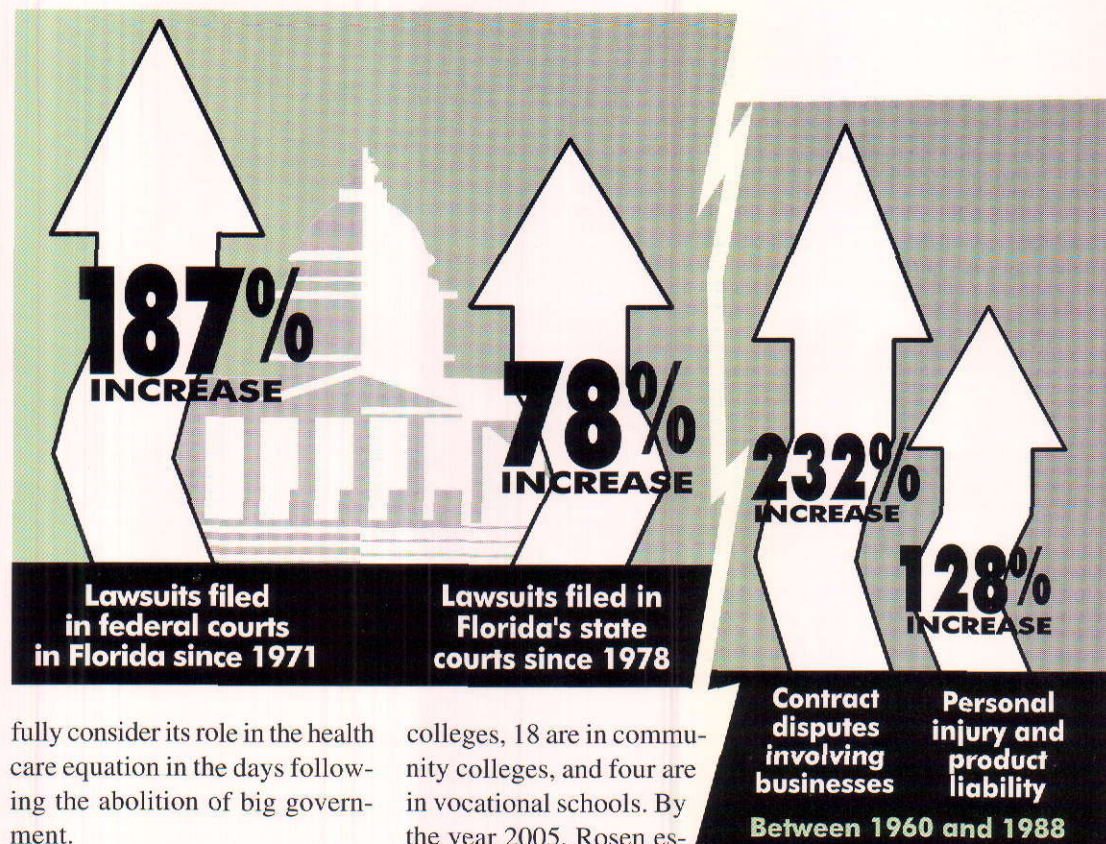


a rise in not-so-legitimate lawsuits. This too is part of our character deficit in a capitalist society. More people who are wronged, and some who are not wronged, feel entitled to compensation today. Most point, quite naturally, to the increase in the number of tort cases—an issue that has resulted in a Middle East-type stand off between business leaders and trial lawyers.

It is now fashionable to take action against a deep-pocket corporation with the assurance that an insurance company will be on hand to pay the bill. Similarly, the number of frivolous workers' compensation cases has increased. One study estimates that 25 percent of all workers' compensation claims are false and that Floridians spend an extra \$400 million a year to cover increased premiums to absorb the cost of this fraud.

The surest way to lose the opportunity to govern ourselves is for workers, and business in particular, to ignore the fact that each has certain responsibilities toward the other and his community.

Health care is a good example. If, in a self-governing society, no mechanism exists for protecting the well-being of individuals and employees, then why should we be surprised when the people head to the polls to ask big government to assume more responsibility? Whether providing health care will be at least partially a function of business or some other arrangement among employees, business must care-



fully consider its role in the health care equation in the days following the abolition of big government.

Providing these benefits, as well as enhancing educational and training opportunities for employees is not only a matter of respect, but a matter of self-interest to the business. These measures will ultimately ensure the most highly productive and efficient workforce possible.

Civic involvement serves the same purpose. A healthy, caring community helps to create a stronger business climate in which businesses have a greater chance of success. Harris Rosen, a successful Orlando hotelier, knows this first hand. He has seen the rising crime and drug problems in Tangelo Park, a low-income community near his hotels.

In 1993, Rosen committed to paying for a college education for every child in Tangelo Park who stayed in school. Rosen has already seen the fruits of his philanthropy—10 kids are in 4-year

colleges, 18 are in community colleges, and four are in vocational schools. By the year 2005, Rosen estimates that 400 kids from Tangelo Park will have enrolled in or graduated from college. Some might even be working for him.

The bottom line is, in a self-governing society certain time-honored virtues must be re-emphasized—honesty, integrity, hard work, civic responsibility. If you enter into a contract, stick to it. If you produce a product or service, stand by it. If you assume the responsibility of a job, work hard at it. If you run a business in a community, give back to it. If we abide by these principles, then the Era of Self-Government will be fruitful and enduring.

However, if we fail at this great experiment, if we do not exercise our freedom responsibly, watch out. Big government is not dead. It is only dormant. And there are many who eagerly await the opportunity to wake it up. ■



It's YOUR

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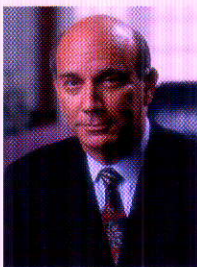
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TESTIMONIALS

If business leaders fail to speak up in our legislative halls, Florida business will be but one short step away from economic chaos. There must be a strong, effective voice for Florida business in Tallahassee. Associated Industries of Florida provides that voice.

MARK C. HOLLIS, PRESIDENT (RETIRED)
PUBLIX SUPER MARKETS, INC.

AIF does a great job of representing the business perspective before the Legislature. We also rely heavily on AIF's legislative tracking system to help us keep up with the 2,000 or so bills that are filed each year.

DOUGLAS L. McCRARY, PRESIDENT (RETIRED)
GULF POWER CO.

The AIF staff is extremely competent and highly respected as one of the best lobbying groups in Tallahassee, and, as a result, very effective in representing business interests. I wholeheartedly endorse and support AIF's past efforts and successes.

LANCE RINGHAVER, PRESIDENT
RINGHAVER EQUIPMENT COMPANY

A ssociated Industries of Florida

516 NORTH ADAMS STREET • P.O. BOX 784 • TALLAHASSEE, FL 32302-0784
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A Partnership in Communications

As vice president for video production at AIF Service Corporation, I always wanted to have access to the latest technology and the most creative film and video experts available. As the saying goes, "Be careful what you wish for; it might come true."

In January of this year, I became the chief operating officer at White Hawk Pictures, one of the state's leading film and video production companies. Such a move would not normally be news that the membership of Associated Industries would be interested in, but this is a unique situation.

AIF and White Hawk have formed a strategic business relationship, allowing these two companies to combine their proficiencies and provide a level of service found nowhere else in Florida. It's a mix that brings the business expertise of AIF and the communications know-how of White Hawk together, allowing us to provide our clients with the latest applications of communications technology.

Here are some of the products that we offer together:

Internet Presence

If you haven't visited the AIF Web page at <http://aif.com> or the

White Hawk page at <http://aif.com/~whp/>, it's worth a look. AIF and White Hawk have combined their graphic and computer skills to provide the business community with the latest in Web page design, implementation, and continuing service.

Interactive Television

Interactive television combines the data collection and processing capabilities of a computer with the sight and sound of television to provide a forceful sales and training medium to your audience. We work in all formats, including laser disc, CD-ROM, and CD-I. We can help you select the appropriate format for your audience.

Film and Video Production

The AIF/White Hawk team is unmatched in Florida and recognized nationally as a leader in the creation of award-winning film and video productions. Our ability to interpret and motivate business audiences is unmatched.

What this means is that we can help you meet your sales, training, and marketing needs on time and within budget. We are available to discuss your needs and how we can meet them. We have found that if we are brought

into the planning process early on, we can save you time and/or money when the final product is delivered. There's no obligation on your part—besides listening to our ideas about helping your business grow.

The AIF/White Hawk team is ready to bring our expertise to your project. With offices in Tallahassee, Jacksonville, and Boca Raton, we are only a phone call away. If you would like more information about how we can help your company communicate better, give me a call at (904) 224-7174, or e-mail me at whitehawk@aif.com. ■



**by Doc Kokol, Vice
President, Video
Production, AIFSC &
COO, White Hawk
Pictures**





by the Honorable
**Bob Graham, U.S.
Senate (D-Florida)**

Benefits of a Balanced Budget

After decades of red ink in Washington, we have a chance to balance our federal budget. The House wants a balanced budget. The Senate wants a balanced budget. The White House wants a balanced budget.

If you take the budget areas on which there is agreement regarding spending cuts, those would total over \$700 billion. We're almost there. The question is whether we are going to forge ahead or lose this critical opportunity over relatively minor differences. In politics, it's hard to sell "what might could be in the future."

It's sometimes easier to stake out partisan positions and com-

plain about the other side. The benefits of balancing the budget are clearly in the national interest. But rarely do you hear about how balancing the budget will impact the average person on Main Street. If we could get Washington out of the borrowing business, interest rates would keep going down and every American who borrows a dollar would win.

Florida has a unique stake in the outcome of this debate. Florida will continue to grow with expansion of our population and our business base. Florida's population is expected to increase nearly 10 percent between 1995 and the year 2000. By the year 2005, our population is projected to grow from its current level of 14 million to 16.8 million people.

Floridians need to be able to pay for the necessary consequences of this growth—housing, schools, cars, etc.—and most of the money used to pay for these basic necessities will be borrowed. Therefore, if capital is readily available at a reduced cost, virtually everything we do that involves borrowed money is easier and will have a positive financial impact on states with expanding populations such as our own.

The budget debate has produced a lot of noise, but the bottom line is this: If we could bring the federal budget into balance by the year 2002, virtually every economist agrees that interest rates would come down. In short, a balanced budget is your wallet's friend.

Much of the money Washington borrows is used to pay interest on past debts. Twenty percent of our national debt is owned by foreigners. If we could turn off the Washington deficit vacuum cleaner and take pressure off capital markets, interest rates would decline even further. No one disputes that projection, it's just a matter of how much it will decline.

One forecast by DRI-McGraw Hill said that a balanced budget by the year 2002 would reduce mortgage rates by 2.7 percentage points. Think about what that would mean. For one, monthly mortgage payments would go down so more Americans could own homes.

The National Association of Home Builders estimates that a half million more Americans would buy homes because mortgage money would be more affordable if we balanced the budget. So, for thousands of Americans, a balanced budget will make the difference between home ownership and not owning their home.

Although McGraw-Hill says mortgage rates would drop 2.7 percent with a 7-year balanced budget plan, let's be more conservative for the sake of example.

**If we could turn off
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even further.**



Let's assume that mortgage rates drop only 1 percent, not 2.7 percent. Here's what a one-point drop in interest rates would mean for financing a typical home purchase. If you're buying a \$100,000 home in Florida today, putting 10 percent down, your monthly principal and interest would be \$621 at a current 30-year mortgage rate (7.37 percent). But, if you shave one point from the interest rate, your monthly payment drops to \$561 per month. That means one point puts \$60 in your pocket each month. Over the life of the loan, one point would save you more than \$21,000 in interest.

As for college loans, the people at Sallie Mae say the av-

erage indebtedness for a 4-year college education is \$11,750. Figuring that these loans are paid over 10 years, a one-point drop in the loan rate would save \$740. So, for thousands of new graduates, a balanced budget would mean a decreased personal debt burden.

Businesses would also benefit from a balanced budget. Lower mortgage and student loan payments mean that consumers have more money in their pockets that can be spent on a variety of goods and services.

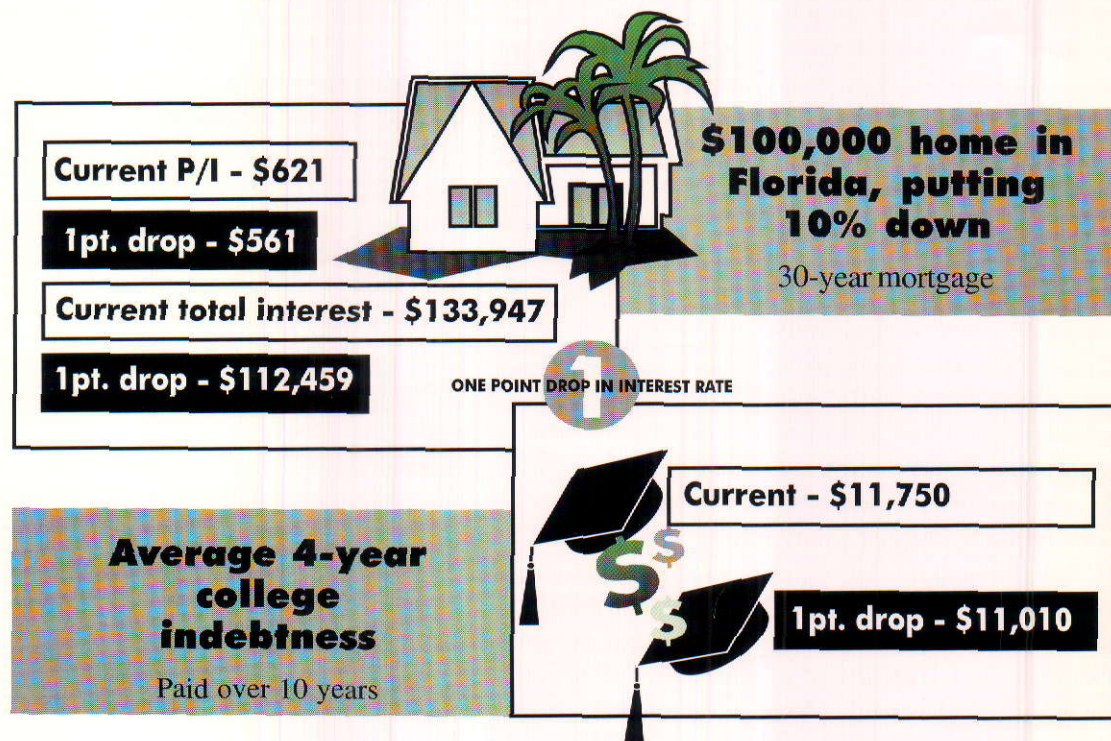
A balanced budget would also empower corporate investments at home and abroad. Lower interest rates encourage businesses to embark on new capital

projects. This, in turn, provides workers with the tools they need to increase their productivity.

Passing a balanced budget plan would also increase Florida's competitiveness in the ever-growing global marketplace. Eliminating the deficit would reduce our dependence on foreign investors while bolstering our ability to export Florida products.

The benefits of a balanced budget are real, and Florida has a unique stake due to our need for capital and the makeup of our population. Failure to achieve balance will forestall tough decisions and make them more difficult later. Success will bring broad, pervasive benefits to Main Street, America. ■

A balanced budget is your wallet's friend





by **Scott A. West,**
M.D., Medical
Director, Medical
Disorders Unit,
Florida Hospital

Depression Costs Businesses Billions

In the company lounge, a small green and white pill rolled across the floor as a group of co-workers gathered for idle chat and to fill their coffee cups. The pill was silently acknowledged by all and casually picked up. The inscription "Prozac 20 mg" was announced. The conversation abruptly stopped, and the air became somewhat tense and uncomfortable. No one would admit it was his.

Prozac is one of the most widely prescribed medications in the United States, with millions of prescriptions written annually. Yet few people are willing to acknowledge that they suffer from depression because of the stigma often attached to this illness. Although misconceptions have changed significantly over the past 10 years, a lot of misinformation and ignorance persist regarding the causes and treatment of depression.

However, depression not only affects individuals; it markedly impacts the workplace. Because depression is prevalent and is one of the most incapacitating illnesses in medicine, it costs businesses billions of dollars annually. The physical impact of depression is typically greater than that observed with diabetes. In 1990 alone, it was estimated to cost the American economy \$44

billion. This is more than heart disease and most other general medical illnesses. The global effects of depression are staggering, both for individuals and businesses—emotionally, physically, and financially.

The role of stress in precipitating episodes of depression cannot be overstated. In an era of corporate downsizing, reorganization, and mergers, executives may be particularly vulnerable. Minimizing stress at work by setting realistic goals and demands, communicating openly, and having a clear chain of command is essential. Stress triggers a cascade of neurochemical changes in the brain, many of which influence our mood, perception, cognition, and physical well-being. Therefore, it is important to reduce unnecessary job stress as much as possible so that performance and productivity remain optimal.

Many Faces of Depression

There are different types of depression that are distinguished by severity, course (chronic, intermittent, seasonal, premenstrual, postpartum), their association with general medical disorders (e.g. hypothyroidism), and their association with prescription or illicit drug use. In the

evaluation of depression, it is important to sort these factors out initially since they markedly influence the course of treatment. The following are some basic facts about clinical depression.

- Depression is an illness similar to diabetes; it is not caused by a character weakness or personal flaw.
- Numerous biological alterations are observed in people with depression.
- One in five Americans will suffer from depression at some time.
- About 10 million Americans at any given time have depression.
- Approximately one-third of the patients seen by primary care physicians are suffering from depression that often goes unrecognized.
- Fewer than one in three people who have depression seek treatment.
- Treatment for depression is very effective in over 80 percent of people.

Clinical depression not only affects a person's mood, but an array of cognitive and physical symptoms also occur. Moreover, these are the symptoms that often interfere most with one's ability to work and function.



Common physical manifestations include appetite and weight changes, sleep disturbances, decreased sexual drive, loss of energy, fatigue, pain (e.g. headaches), and gastrointestinal discomfort. Common cognitive changes include poor concentration, impaired short-term memory, distractibility, indecisiveness, obsessing about trivia, and a decreased rate of thinking and speech. Additionally, people often become restless, have slowed movements (e.g. walking), and feel anxious and/or irritable.

The psychological symptoms of depression are much more obvious, but may not be as prominent as the physical and cognitive changes that occur. This is especially true in older individuals, who tend to complain of less mood symptomatology and more about physical and cognitive symptoms. Psychological or mood symptoms include sadness, apathy, lack of motivation, loss of interest and pleasure in activities, hopelessness, feelings of worthlessness and inappropriate guilt, preoccupation with death, and suicidal ideation. It is tragic that, despite available and effective treatment, approximately 15 percent of people suffering from depression commit suicide. More public awareness and education will substantially reduce this risk.

Indirect Costs of Depression

It has been conservatively estimated that the indirect costs

of depression nationwide were over \$31 billion in 1990. This is 2.5 times the annual cost of treating depression. Most of the indirect costs are attributable to a reduction in productive capacity due to excess absenteeism from work and a reduction in productivity while at work. Lost productivity due to suicide also contributed to the overall cost. The consequences of depression are indeed costing businesses billions of dollars.

Direct Costs of Depression

The direct costs of depression totaled \$12 billion in 1990. These treatment costs were largely due to inpatient and partial hospitalization (\$8 billion), outpatient care (\$3 billion), and pharmaceutical costs (\$1 billion). However, early recognition and treatment may substantially reduce these overall costs since symptoms would not typically progress to the point of requiring hospitalization or intensive outpatient treatment. Outpatient visits are also much less frequent when symptoms are mild, further reducing costs.

Treatment Options

The advent of Prozac in 1987 ushered in a new era in the pharmacologic treatment of depressive disorders. Since that time, as the chemical imbalances underlying depression have become better understood, numerous antidepressants have been introduced, including Zoloft, Paxil, Wellbutrin, Serzone, and

Effexor. These medications have been demonstrated to be safe and effective in the treatment of depression, and may be used exclusively or in conjunction with psychotherapy.

In milder cases of depression, psychotherapy may be selected as the sole treatment option, which is also very effective. It is important to realize that just as there are many different medications, there are different types of psychotherapy and the type chosen should be tailored to the individual. Additionally, lifestyle changes, including proper diet, exercise, and leisure time are necessary components of a global treatment plan to restore and maintain optimal health and productivity.

If you, one of your employees, or someone close to you is suffering from depression, there are numerous options available to pursue help. Consulting one's family physician is often an excellent place to start and may be all that is necessary, or an appropriate referral may be suggested.

County-subsidized programs in Florida provide services on a sliding fee schedule so that some type of treatment is affordable for everybody. Additionally, organizations such as the National Depressive and Manic Depressive Association [(800) 826-3632] and the Florida Psychiatric Society [(800) 521-7465] may be helpful in recommending a treatment provider in your area. Most importantly: get help—you're worth it. ■

Most of the indirect costs are attributable to a reduction in productive capacity due to excess absenteeism and a reduction in productivity.



Fighting the Status Quo

by Jacquelyn Horkan, Employer Advocate Editor

From spectator to political activist to candidate, George Ford's conversion took just a little more than two years.

In 1992, he was brooding over the future of his company, a West Palm Beach paint contracting business with six employees. Workers' comp premiums tore huge holes in his profits and every year the problem just seemed to get worse.

Ford realized he had a choice to make. He could either sit back and hope the situation would somehow improve or he could seize the initiative. In a moment that would become a watershed

in his life, Ford chose the latter.

Using his position as president of the local chapter of his trade association, the Painting and Decorating Contractors of America, Ford galvanized Palm Beach County contractors into action. He and his colleagues studied workers' comp systems in other states and developed a list of proposed reforms based on that research.

In March of 1993, Ford brought his proposal to Tallahassee where he ran head-first into the forces of inertia that make change difficult in the state's Capitol. With so many special interests dedicated to protecting the status quo, lawmakers were reluctant to address problems in the workers' comp system.

Ford hoped to join forces with business lobbyists to bring about action on the issue. Some told him they didn't need his help. Others informed him that they had already struck deals with other special interests and they weren't willing to entertain new ideas.

Then he made a stop at Associated Industries. Although an AIF member, Ford had never visited the association headquarters and he had never met any of the staff. At that first encounter, Ford explained his proposal to

Jon Shebel, AIF's president & CEO. Ford's ideas dovetailed neatly with AIF's own recommendations.

Shebel realized that together they could gain the momentum they needed to break the stalemate on workers' comp. As Shebel explained to Ford, without a grass-roots effort, real reform would never take place.

"Jon Shebel was the only paid lobbyist I met who takes the interests of his members to heart," says Ford. "Others feel that it's not really their problem. They're okay with the status quo, not rocking the boat. Jon is someone up there who doesn't mind rocking the boat."

With Shebel's help, Ford arranged meetings between business people and politicians. He organized rallies to demonstrate the depth of the business community's insistence on change.

Working in tandem with Shebel and AIF, Ford overcame the powerful forces that resisted change. Their teamwork helped create an atmosphere for true and meaningful reform of the state's workers' comp laws.

On that first trip to Tallahassee, by a strange coincidence, Ford had found himself seated next to Mimi McAndrews on the airplane. At the time, McAndrews was the member of the House of Representatives from Ford's own home district. After talking to her, he realized that she would not support the changes he favored. As debate on workers' comp reform progressed,

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McAndrews would time and time again advocate anti-business positions.

That conversation motivated Ford to take the next step on his political road to Damascus. When McAndrews, a Democrat, faced re-election in 1994, Ford decided to challenge her as a Republican.

McAndrews was ultimately defeated in a nasty and bitter primary campaign against another former lawmaker, Lois Frankel. Frankel had served in the House for six years before losing an election to Congress in 1992. After two years on the sidelines, she decided to try to regain her old seat.

With the primary over, no other state political race in 1994 offered the clear-cut choices of the Frankel-Ford contest in the general election. Frankel ran on a platform of traditional liberal issues. Ford focused on economic development, promising to help business owners and employees realize the profits of their hard work.

Although defeated by a narrow margin, Ford believes he gained a victory of another sort.

"There isn't enough debate, serious debate about issues," he explains. "You can use the campaign trail to get that started."

He would like to run for office again, but for now he's concentrating on building his company. While his two years in politics didn't hurt his business, they didn't help it either.

"For me, it was a very rewarding experience," he says. "My



George Ford: "There isn't enough debate, serious debate about issues. You can use the campaign trail to get that started."

business didn't grow, but I did."

By lobbying on workers' comp and running for office, Ford gained valuable insight into the relationship between elected officials and their constituents.

"On the one hand, I do have a lot of appreciation for what legislators do," he says. "On

the other hand, there are a lot of them who need to go out and work in the private sector for a while.

"What may be an unbelievable problem for you, they don't have a clue about. That's why you need to take the time to educate them." ■



by Ron Brown,

**Florida State
University School of
Criminology and
Criminal Justice**

Juvenile Justice Role Model Development Project

Although juvenile delinquency is not strictly a modern problem, recent shocking juvenile crime statistics, as well as public outcry, have drawn attention to the need for innovation in managing juvenile offenders in Florida.

Statutory and administrative changes have made it possible for the expansion of various youth management programs to accommodate the growing need for service among the youth population. However, these

changes have not addressed the consideration of professional personnel for the programs.

The Juvenile Justice Role Model Development Project confronts the important issue of staffing. In fact, the specific need for qualified professionals throughout the state was the impetus for developing the project. Whether the juvenile program is residential or non-residential, state-operated or private, minimum or maximum-risk, many more of Florida's youth could be served by these facilities if they were properly staffed.

The lack of professional staff has contributed to the fact that fewer new programs have opened and less expansion of existing programs has occurred where a great need for new and expanded services exists. It is the mission of the Role Model Development Project to provide a pool of professionals in the area of juvenile justice who are uniquely trained, culturally aware, and committed to serving as role models and staffing youth prevention, intervention, and redirection programs throughout the state and the nation.

The project is a collaborative program between Florida A&M University (FAMU) and Florida State University (FSU). Both universities are jointly committed to this original and exclusive program. The universities offer different program courses each semester, creating a unique exchange of students and ideas, as well as cooperation. Students from both institutions are enrolled in the program and actively participate in the cooperative educational scheme by taking courses at both institutions.

Students from various academic disciplines are enrolled in the programs. Computer science majors, athletes, allied-health majors, criminal justice majors, and former and present military personnel are among our students. These individuals have dedicated themselves to working with juveniles and making a difference within communities to address and help curb the growing problem of juvenile delinquency and crime. Presently, distance learning technology allows FSU students who are enrolled at the Panama City campus to participate in this program. FAMU will soon offer a similar link to its satellite campuses.

The project provides two modes of curriculum delivery. Students with a criminology or criminal justice major can elect a concentration in juvenile justice. Students with any other major may opt to fulfill the requirements for a minor in juvenile justice.

A third mode of curriculum

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delivery—a certificate program—is being developed to accommodate individuals who are not currently enrolled in a school program, but desire certification in the area of juvenile justice. The certificate program will include diverse forms of curriculum delivery to overcome educational barriers such as work schedules and distance.

Six core courses and internships make up the curriculum for both the concentration and minor programs. The courses draw from various academic disciplines, including criminology, law, sociology, psychology, education, social work, and anthropology. Core courses include multidisciplinary and multicultural perspectives, adolescent development, juvenile justice, legal and advocacy issues, various social dilemmas that youth confront, management, and field research.

As part of the requirements for the academic curriculum, students volunteer to work in youth programs. This allows direct, practical experience in addition to the academic orientation and is an important component in the training process.

In addition to the academic requirements, emphasis is placed on mentoring. Students are encouraged to develop friendships with young people wherever possible. These are valuable opportunities for rare relationships to be formed with young people who desperately need a positive influence and a caring friend. The resulting relationships are benefi-

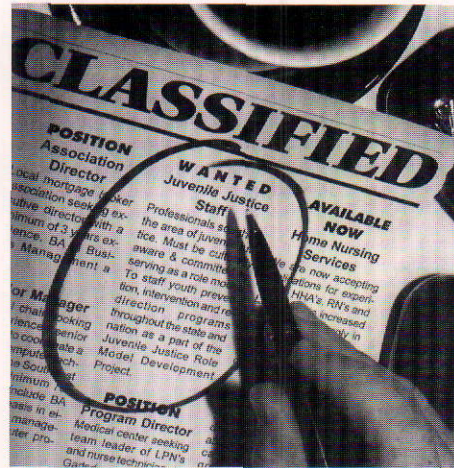
cial for both the youth, who may not have role models available, as well as our juvenile justice students, who offer many positive qualities to society's youth.

The project's internship program is another integral part of the education process, providing further opportunities for association between our students and juveniles in need of a stable role model in their lives. As part of the curriculum requirements in juvenile justice, students can select from various juvenile detention/intervention provider agencies throughout the state when they are ready for an internship placement.

Both students and agencies benefit from this internship program. Students gain valuable work experience and are exposed to real world situations not taught in the classroom. The internship provides students the opportunity to relate theory to practice. Agencies have the opportunity to use interns to work on special projects and assist in daily operations. Additionally, many agencies consider the internship program an excellent screening mechanism for future employment.

The spring semester produced our first crop of interns; two were placed with the Department of Juvenile Justice, one with the Tallahassee Marine Institute, and one with Young and Striving. We project placements for almost 40 interns during the summer semester.

Students have requested placements with various agencies



throughout Florida, as well as in New York, Boston, and Chicago.

Graduates will be qualified to fill professional entry-level positions in a variety of local and national juvenile service programs. Our graduates are dedicated to professional service as well as direct interaction with today's youth. The need for these professionals is so great that several youth programs have already committed to hiring as many graduates as the program produces.

Student response to this innovative new program has been overwhelming. The multidisciplinary academic preparation, internships, working with young people, and the available pool of employment opportunities the Juvenile Justice Role Model Development Project provides are among the program's most attractive features. Individuals who seek to make a difference, however, are our most valuable resource.

To find out how you can support this project, contact Ron Brown at (904) 644-7113. ■



by **Gordon W.**

Lightfoot, Vice

President, Training

& Education

The Business Connection

The federal School-To-Work Opportunities Act was signed into law in 1994. Instead of just another education initiative, this new act is supposed to bring systemic change to the way education is delivered to our students by our teachers, parents, employers, and communities.

Every business, from large multi-national corporations to small family-owned enterprises, will play a significant role in the success of School-To-Work. It's designed to involve business people in each of its three main components.

1) *School-Based Learning.* Integrated job instruction and career exploration with a program of study based on high academic and skill standards using applied learning in school instruction.

2) *Work-Based Learning.* A planned program of job training or work experience, through work-site involvement by students and teachers.

3) *Connecting Activities.* Coordinated involvement of employers, schools, and students developed through School-To-Work "points of contact" (a communication network) that will develop and ensure business involvement.

There are two critical ingredients in School-To-Work. One is the partnership between the federal and state departments of labor and education. The second is the partnership between educators and employers.

In its plan to bring systemic change to education, School-To-Work, by its very design, brings to our communities the involvement of the business/employer community in local schools. Career education of the 1970s, although successful in many ways, failed to make the connection with the business/employer community. As a consequence, parents and educators ended up talking to each other without the

benefit of the resources, knowledge, and input of the end-users of our education products: employers.

AIF, as a statewide business association, has a stake in the success of all education initiatives. In fact, AIF has involved itself in education in many different ways. AIF is a business partner with two Tallahassee schools. Staff members are personally involved as student mentors and as members of local school advisory councils. AIF members sit on school boards, private industry councils, and other local boards. And last year, the training and education division was awarded a grant to produce a videotape and companion brochure about School-to-Work for Florida's business community.

As a part of the narrative proposal submitted to the Department of Education, I addressed the need for the business community to get involved in Florida's School-To-Work activities as follows.

We need to create awareness, build demand among the business community to participate in local partnerships, develop capacity of business to be an active partner in these partnerships, and we need a broker to assist in the formation of coalitions of business and of local partnerships among business, education, labor, and community organizations to develop and administer local School-to-Work opportunities programs. The need is for a marketing





strategy to accomplish all of the aforementioned.

Associated Industries fulfilled part of this need for a marketing strategy by producing a videotape and brochure for the business/employer audience effectively describing and explaining the basic components of the School-To-Work Opportunities Act. But these products only partially fulfill our needs.

No marketing plan is complete without the products being delivered. That is the effort AIF plans to fulfill in a second initiative this year.

Whereas AIF's videotape and brochure were entitled *The Business Perspective*, our second initiative is entitled *The Business Connection*. That connection will be made in collaboration with the state departments of education and labor. AIF staff will travel around Florida to explain the benefits of School-to-Work to members of AIF, business clubs, local chambers of commerce, private industry councils, and other forums.

We hope to provide some clarity and awareness to employers throughout Florida who, all too often, are inundated by staff from many different programs—some inside and a lot outside the classroom—to provide a job, to mentor, to speak to elementary school students, to participate in apprenticeships, or just to provide other services needed by educators and program operators.

School-To-Work is an umbrella for all the programs within education that influence the ability of students to navigate the transition from school to the world of work. Employers can help by becoming active partners with local school boards, as well as Florida's departments of labor and education.

Another important partner is the classroom teacher. Teachers in school districts, community colleges, and vocational institutions have a need to know about and understand the strengths and needs of their partners in School-to-Work. Teachers need to know just what *The Business Connec-*

tion is and they particularly need to know about and become aware of and understand the roles of business, private industry councils, and the state departments of labor and education.

Associated Industries believes strongly that the business/employer community of Florida has a tremendous stake in the future of our children, their schools, and their places of employment. School-To-Work can be the opportunity for all of us to help Florida's students develop their talents, to the fullest extent possible, for the high-skill, high-wage jobs of tomorrow.

For more information about AIF's efforts in School-To-Work, please call Gordon Lightfoot at (904) 224-7173, or visit our Web page at <http://aif.com>. ■

School-To-Work is an umbrella for all the programs that influence the ability of students to navigate the transition from school to the world of work.



by **Marian P. Johnson, Senior Vice President, Political Operations**

Tools of the Trade

Hammers for carpenters, calculators for accountants, computers for writers, tractors for farmers—and polling for politicians. All of these are what we refer to as necessary and essential tools of the trade. Without the hammer, the carpenter could not build the house. The accountant's job is certainly simplified by those invaluable little calculating machines. The writers who tap away on keyboards find their work much easier to produce. With a tractor, the farmer increases the productivity of his land to an extent unimaginable by his father and grandfather.

And so it is with polling and the campaign manager. The proper application of polling can guide the campaign through its entire course—telling campaign managers what is working and what is not.

There was a time, in the not-so-distant past, when technology was not so advanced. As a child, I remember the 'crank' handle on the side of the adding machine. Then came electronic and micro-chip innovations and now we have palm-sized calculators that operate on extended batteries or, better still, on solar power. And remember the manual typewriters? The old mule-drawn plow? How times have changed! And likewise, an evolution has occurred in campaign techniques too.

When Abraham Lincoln ran for the presidency, his campaign was simple.

- Know who is registered to vote.
- Know who is going to vote.
- Know who is going to vote for you.
- Get *your* voters to the polls on election day.

Lincoln's plan still guides today's campaigns. What has altered the scene are the various methodologies employed in order to realize these objectives. One of the new techniques is polling.

What are polls anyway? Why aren't all poll results the same? Why even do a poll? Is a poll an accurate predictor?

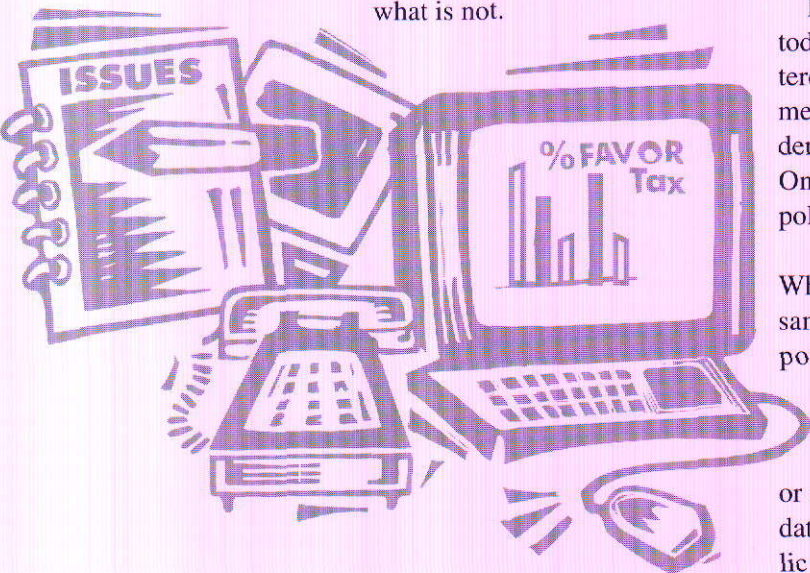
These are just a few of the questions I've heard most often over the last 20 years or so; and not just from candidates, but from the general public as well.

So many times I've heard a politician say, "I know my district better than anyone else, so I don't need polls to tell me what people in *my* district think." That statement, however, could be attributed to several *former* legislators. They lost touch with the people who elected them—the people they were to serve.

Remember Donald Segretti, the California lawyer who was jailed for his part in the Watergate scandal? A few years ago, Segretti decided to run for Orange County Superior Court Judge. Three days later, Segretti withdrew his candidacy, citing "unfavorable public reaction." If Segretti had looked at the poll results, he wouldn't have wasted his time because they showed he could not win.

Twenty years ago, a campaign could be conducted without polling data. Even 10 years ago, one could predict election results in some areas of Florida just by using demographic data and past electoral trends. Today, campaigning is more sophisticated than it was in the past and polling has become a necessary, essential part of the process that drives the campaign wagon.

A campaign conducts polls in order to develop campaign strategies. Like the carpenter who does not begin hammering those nails until he reviews the building plans, a campaign should not go forward blindly, uncertain



about specific strategies and tactics.

Although the results of a poll provide a vast amount of information, polls are done basically for three reasons:

- to test the vulnerability of an incumbent and/or electability of a candidate;
- to test messages and target audiences for messages; and
- to test the impact the of message.

As the poll results are analyzed, the campaign is able to develop the strategy and tactics—the roadmap—for the campaign adventure.

I have never worked with a candidate who used polls to decide what he believed in, but some politicians do and the voters usually figure that out. Besides, it's a risky strategy because polls are nothing more than snapshots in time—a moment's picture of the targeted audience's opinions and views. Those opinions and views can change dramatically in a very short period of time.

A good candidate doesn't take a position on an issue that he does not believe, but campaign audiences are varied and one issue of concern is not always universal. Unless the candidate is a single-issue politician, a poll can show him where each piece of the puzzle fits and that helps to save money.

For instance, rather than paying to mail campaign information on every issue to every registered voter (which is very expensive), the poll indicates which message

is of most importance to which audience. Thus, the campaign can target its message to the proper audience and reduce the cost of voter contact—sometimes by 50 percent or more. So, polls are just a smart business strategy in addition to being a valuable election tool.

Contrary to popular belief, however, polls are *not* intended as “predictors.” Actually, polls are intended to be “descriptors,” meaning that a poll is intended to be a method used to describe the situation and options at one given point in time.

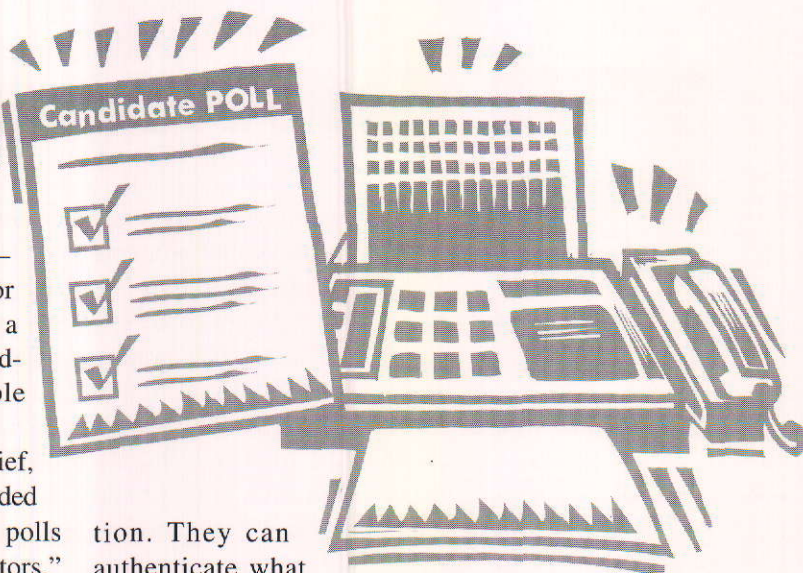
Even tracking polls (surveys that ask similar audiences the same questions over a certain interval) are not “predictors.” If utilized properly, however, tracking polls can be used to “see” the picture and, assuming the situation and description remain the same, a tracking poll can demonstrate a developing trend.

Why aren't all poll results the same? Audiences are different, lists are drawn by different criteria depending on the reason for the poll, sample size varies, but most of all, polls are not done at the same time. Polls are results of a particularly described situation at a particular time.

Polls are a part of any campaign, political or public relations. Polls help save campaigns hard-won dollars. They are not sinister preludes to corrupt strategies; rather polls are a valuable source of informa-

tion. They can authenticate what a candidate thinks the electorate feels or they can contradict the candidate's alleged knowledge of the district. Either way, polls are necessary and needed. But, the next time you read those poll results, just remember this: The results are for the events occurring at a given time, so look for the time frame when the poll was conducted, because opinions can and will change. ■

Polls are just a smart business strategy in addition to being a valuable election tool.





by David P. Yon,

Executive Vice

President & Chief

Financial Officer

An Accounting Primer

Accounting is a process—a process that attempts to measure and translate the events and activities of a business enterprise or other organization into a set of meaningful symbols. These symbols generally take the form of numbers, but can also take graphic and other forms that communicate results and/or expectations to those involved internally (management) and externally (stockholders, regulators, tax collectors, etc.).

The basis of accounting is a set of principles, called loosely (by some) “generally accepted accounting principles.” These are the specific (most of the time) measurement rules by which the process of accounting is applied. Generally accepted accounting principles (GAAP) encompass a wide range of measurement rules with differing and, sometimes, conflicting objectives.

This is where the “science” of accounting can become the “art” of accounting. At times, a great deal of judgment (creativity) is used in the application of GAAP. This has given rise to the term “creative accounting,” which is often heard to describe the judgments involved in the application of accounting principles and the presentation of the results of applying those principles. While creativity is great in any organization, it’s not so hot in accounting.

Cash Versus Accrual

There are two basic accounting schemes for measuring operating results: the cash basis and the accrual basis. In the long run, both will give the same results. At any point in time, however, the differences between the two are generally attributable to delays in receiving cash and paying bills.

Most smaller businesses use the cash basis since this is simpler to apply and does not involve a very sophisticated application of GAAP. The cash basis consists of recording revenues when received (or collected) and recording expenses when paid. At any time, there will likely be revenues that have been billed or earned but not collected, as well as bills that have been incurred but not paid. These are ignored when applying the cash basis.

The most elementary measurement of whether a business utilizing the cash basis has a profit is whether there is cash in the bank. This perception of “profit” is often so ingrained in the small business owner that he or she (or it, or them, or whoever) cannot understand how there could be profits when there is no cash, or a loss when there is cash. The IRS does not like the cash basis because of the “flexibility” it allows in determining the amount of income on which taxes are due.

Larger businesses (and those

required by the IRS to do so) use the accrual basis. This is somewhat more complicated to apply since it involves keeping track of revenues earned but unpaid (accounts receivable), and expenses incurred but unpaid (accounts payable). The accrual basis is the foundation contemplated under GAAP and is the preferable way to measure business activities and results since it “matches” revenues earned to expenses incurred within the same period of time.

To the uninformed (about accounting) business owner, the accrual method can lead to very mysterious results, particularly when it involves income taxes. The usual question is, “Why do I owe taxes when I don’t have any cash?” The answer, quite often, is that the cash was used to buy something like a new sport utility vehicle, the cost of which can’t be deducted all at one time when calculating the amount of income on which taxes should be paid.

Capitalization and Depreciation

Now I know I’m getting technical when I use the words “capitalization” and “depreciation.” These terms refer to how the purchase of a piece of equipment, vehicle, or any other item that is expected to last more than

(Continued on page 40)

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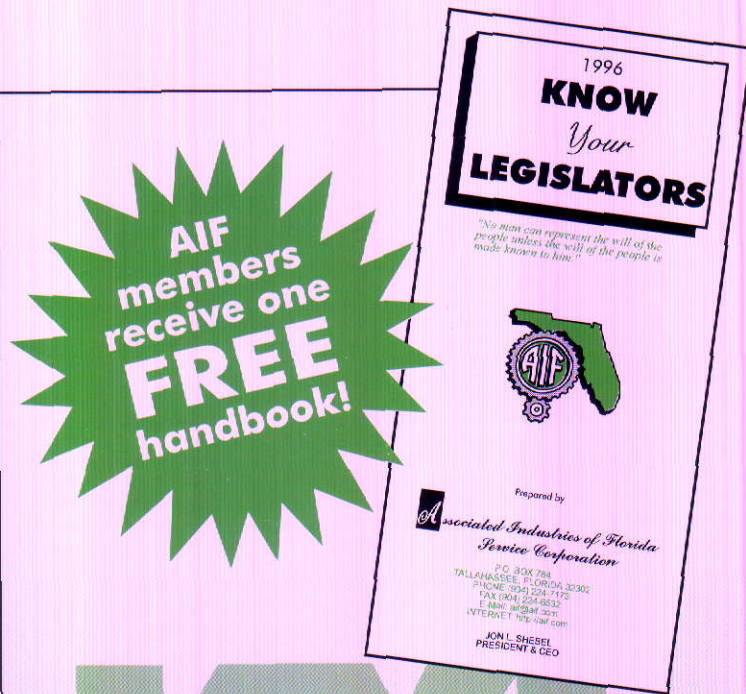
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(Continued from page 38)

one year, is accounted for.

Generally, every expenditure made provides some benefit to the purchaser. The benefit can be of short duration, such as office supplies, or of long duration, such as a desk or vehicle.

When an expenditure is of short duration, it must be "expensed," that is, used to reduce income in the current accounting period (year). If the expenditure is for something that will last more than one year, it is capitalized, which means it is accounted for as an asset and not expensed. This is where depreciation comes in.

Depreciation is a concept that takes part of the cost of an asset and expenses that cost each year the asset is expected to benefit the company. It is a "non-cash" expense, which means that the cash was paid in an accounting period different from the period it was expensed in.

Conclusion

I hope this article has provided you with useful knowledge of what accounting is all (or partially) about, and two of the major concepts involved in accounting. Business people don't need to be accountants to run their businesses, however, knowing a little about the subject can help you run your business. At the very least, it can help you make sure the IRS doesn't profit any more from your hard work than it should. ■



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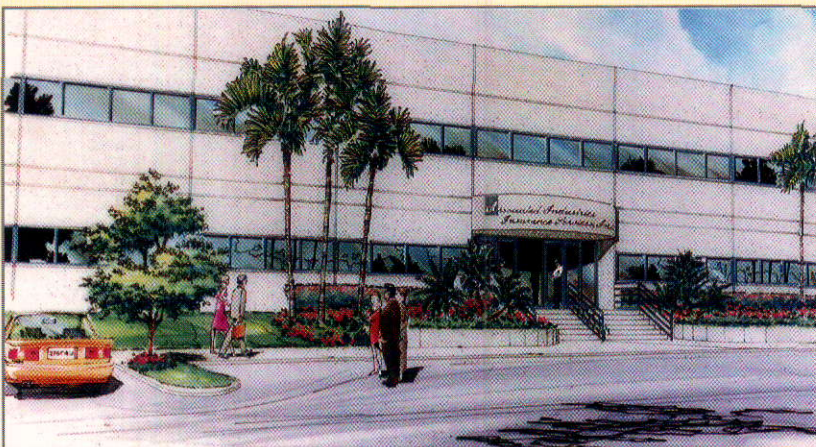
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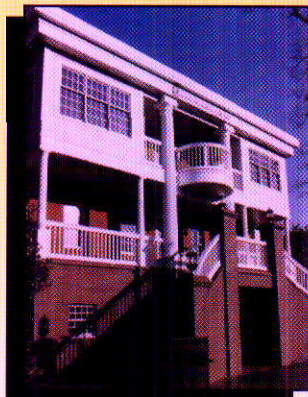


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