

# American Engineer™

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## THE AMERICAN ENGINEERING ASSOCIATION

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## H1-b Visa Lobbying Update

By Ian Fletcher, AEA VP, Gov't Relations

My name is Ian Fletcher and I am the AEA's new Vice-President for Government Relations. When I am not lobbying for AEA, I am vice-president of a small software company in New York City. I just spent a week in Washington lobbying Congress to abolish or curtail the H1-b and L-1 visas. I gave an AEA handout, (see *Why the H1-B and L-1 Visas Should Be Abolished* elsewhere in this issue), to about 200 congressional offices and spoke in person to around 50 congressional staffers. (Those readers who aren't familiar with Washington ways should be aware that one rarely gets to talk to congressmen themselves, but talking to their staffers is equivalent.)

The two bills we are currently pushing, listed at the bottom of the handout, are not likely to move this year. But compared to a similar trip I made four years ago, at the height of the dot-com boom, the response was very friendly. Congress is terrified of outsourcing and well-aware of what an explosive political issue this may turn out to be. This has rubbed off into some concern for immigration's impact on the labor market. The dot-com collapse has made Congress more skeptical of the formerly can-do-no-wrong tech companies. Even free trade itself is beginning to be in question. Nobody is sure where this will all go.

Unfortunately, this is only the beginning. Lobbying, especially against the entrenched globalist political consensus backed up by the money of the cheap-labor lobby, is hard work. It will take years of serious effort, relentlessly exposing their lies, building relationships and credibility on Capitol Hill, and organizing American tech workers, to change things. The good news is that the globalist consensus seems to be falling apart, and we have the masses of voters on our side if only we make the effort to be heard.

Here's the heart of the little speech I gave to congressional aides:

*"I keep hearing about a 'labor shortage' from industry, but I can't find this concept in any economics textbook. I keep discovering that labor in a capitalist economy is a commodity like any other, that it has a market price, and that if you are prepared to pay the market price, the commodity is available to you, and if not, not. There's no entitlement for businesses to have the labor they want at the price they want, any more than the average suburban homeowner has the right to have his lawn cut for \$5. Anyone who says they can't find Americans to do these jobs is just not offering the market wage. And high market wages for Americans are a good thing to be encouraged, not a problem to be solved."*

The business interests that want H1-b give the lie to their "free-market" rhetoric by rejecting the free-market price of technology labor and demanding government intervention, in the form of visas, to push the market price down. They are asking the government for a handout at public expense; AEA is a rarity among Washington lobbies in that we are *not* asking for a government handout but only that the government stop giving someone else a handout at our

members' expense.

The single most important thing you can do, as an AEA member, is to make your own congressman hear you on our issues. Write him a letter, or better yet, get a group of people together and go see his district office. The friendliest receptions I got were all from congressional aides whose bosses had received constituent mail on these issues, and they told me so in no uncertain terms. And please keep supporting AEA financially: Lobbying and organizing costs money and I can assure you that the other side, which is after your livelihood, does not limit resources, as money is its only really strong card. I believe that together, we finally have a chance to win this thing.

But as they say, it all comes down to how bad you want it.

## **A Review of Eamonn Fingleton's "Unsustainable"; Part II "What is advanced manufacturing?"**

By Robert Locke

What is advanced manufacturing? It concerns products that are genuinely difficult to make and thus not feasible to produce with \$5/day peasant labor in Guandong, China. Here's a partial list to give an idea; I make this motley recitation to make clear that advanced manufacturing is not just a matter of computers and the opportunities are vast for a nation that will make the effort to capture them:

1. Flat-panel displays for laptops, TVs and other devices, which require perfectionist manufacturing because a single bad pixel renders them unsalable. They are not made for civilian purposes in the US in significant quantities.
2. Steel-alloy pipes for transporting oil, which sound primitive but are in fact very sophisticated due to the subtle corrosion-resistant alloys involved and the difficulty of making them in the large sizes that require the least final assembly.
3. Photolithographic steppers, the machines used to turn the designs of silicon chips into actual chips.
4. Synthetic fibers. Although sewing clothes is low-tech, turning a barrel of crude oil into convincing synthetic silk is not.
5. Capacitors.
6. Textile-making machinery like ultra-fast modern looms.
7. Laser diodes, like in CD players.
8. Nickel hydride batteries, the tiny high-quality ones that are vital for cell phones, camcorders, and similar devices.
9. Robotics, an industry that buttresses other manufacturing industries.
10. Bearings, ball and otherwise, are a classic seemingly old and dull product that has quietly adapted with the times to become frequently very high-tech.
11. Cameras, both conventional and digital, still and motion.
12. Machine tools, which are, of course, the ultimate key to making other manufactured goods.
13. Avionics.
14. Watch movements.
15. Ship engines. How do you think all those imports get here?
16. Photocopiers, especially their key electro-optical components.
17. Electric power generators, which are unseen but expensive and ubiquitous.
18. Carbon fiber, an emerging material that is replacing metals in key applications.
19. Titanium, an emerging metal.
20. Construction equipment.
21. Medical equipment, one of the few bright spots for America, thanks to the fact that we are one of the few nations not to have totally strangled our medical system with socialism.
22. Computer chips.

Note that much advanced manufacturing involves products – fibers, pipes, bulldozers – that one would not think of as advanced. In fact, many things that the media does depict as advanced, like dot-coms that sell cat toys, are not advanced at all, as these companies merely string together advanced technologies produced by others while contributing no new technical know-how.

The value of advanced manufacturing as an economic base has certainly been noticed by some nations. Japan has been the most systematic about its cultivation, but other nations, like Germany and its hangers-on Austria and Switzerland, and Japan's imitators Taiwan and Korea, have also explicitly pursued it as a path to economic growth.

Americans are not used to the idea that we have something to learn about economics from foreigners, but the key fact we have to face, sooner or later, is that our own economy is no longer the most successful in the world. As Fingleton writes:

*"For those who believe in the superiority of the U.S. postindustrial strategy, the 1998 edition of [the OECD economic yearbook] makes distinctly chastening reading. It shows that, with a per capita income at last count of just \$27,821 a year, the United States trailed no fewer than eight other nations. These include Japan, Denmark, Sweden, Germany, and Austria, all of which devote a larger share of their labor force to manufacturing than the United States."*

Worse, examining growth in per-capita income reveals similar bad news for America and good news for nations more devoted to manufacturing. He records,

*"Yet with almost no exceptions, manufacturing-oriented economies have outpaced the United States in income growth in the interim. Take the sixteen-year period to 1996, the last year for which full OECD figures are available as this book goes to press. In that time, the United States boosted its per capita income at current prices – that is, before adjustment for inflation – by a total of 134 percent. Although at first sight this growth seems impressive, it was bested by no less than twelve other OECD nations. In order of income growth, these were South Korea, Japan, Portugal, Ireland, Luxembourg, Austria, Italy, Spain, Denmark, New Zealand, Germany, and Switzerland. And with the single exception of tiny Luxembourg, all these nations boasted a greater commitment to manufacturing employment than the United States."*

The long-term consequence of this is an inexorable degradation of the American standard of living. And of course, these international income differentials will shoot way up in proportion to the coming slide of the American dollar.

One reason the importance of advanced manufacturing is underestimated in America is that it often centers on key components of consumer products rather than the products themselves. Many consumer products consist of technically-advanced components surrounded by a commonplace plastic package that is easy to make. This has created two very dangerous illusions:

1. Americans turn over a fax machine, see "made in China" on the bottom, and conclude that fax machines are easy-to-manufacture knick-knacks that any Third World nation can produce. They conclude that therefore we should be quite happy to lose this obviously lowly and low-paying industry. But in fact, only the final assembly, which can be done with \$5/day sweatshop labor, happens in China. The crucial electro-optical components, which actually read the outgoing documents and print the incoming ones, are made in highly sophisticated plants in Japan with skilled \$50,000/yr. Japanese labor. But because these components make up most of the cost of the fax machine, most of the money goes to the Japanese company and its workers.
2. Americans see "Hewlett-Packard" on the outside of a laser printer and think "Made in USA." But those HP printers undergo final assembly in various nations in Asia (formerly Singapore, more recently Malaysia) and depend on print engines (the part that actually puts ink on paper) made in Japan by Canon. This is just one typical example. Huge areas of American industry are now utterly dependent on Japanese components. Our vaunted Boeing, for example, produces aircraft like the 777 that are now 30% imported in terms of the value of their components, and our dependence on foreign parts that no American firm can supply is one of the dirty little secrets of our war machine.

This makes American companies both a smokescreen for our industrial decline and a political Trojan horse for aggressively-exporting nations like Japan, who instead of having to openly lobby Washington can send the American companies that are dependent on them for components to do it. This has been a key part of Japan's strategy to blunt American political pressures to open her markets, and other nations play similar games to a lesser degree.

The other great beauty of producing components, from the Japanese point of view, is that it enables them to cherry-pick the high-value-added parts of the products for their own workers while minimizing foreign resentment of their market penetration. People in Michigan actually resent seeing Toyotas on the street, but they don't resent seeing Dodge Neons that are produced using metal presses imported from Japan, because they don't know. Compare this with America's strategy in exporting McDonald's and Starbuck's, which puts most of the value-added activities overseas, where they provide no income to American workers, while maximizing foreign resentment with highly-visible brand names.

Japan, of course, pretty much has the consumer-electronics market locked up with a few competitors, which brings us to Fingleton's other point: the value of monopoly industries. The fact is that some industries, which enjoy monopoly or near-monopoly status, are in a position to charge their worldwide customers premium prices that can be passed along to their workers' wages. A nation that aspires for its citizens to enjoy an above-average standard of living must have industries that enjoy these strong competitive positions. Industries that lack these strong, near-monopoly, positions will have their prices pounded down by their competitors, resulting in their simply not having the money to pay their workers well.

Monopoly industries are what they are because they have strong competitive positions compared to their competitors in other nations. That is to say, they have advantages that cannot easily be matched. Things like proprietary know-how

built up through advanced research and long experience. Things like a skilled workforce it would take years and a lot of money, to train from scratch elsewhere. Ownership of technological standards, as Microsoft and Intel have today and IBM used to have. The cost to someone else of duplicating these advantages is so high that it is uneconomical and no-one tries.

It is important to make two distinctions here:

1. Monopoly industries are not the same as monopoly companies. There are a number of Japanese car and consumer electronics companies, for example. Even governments which understand the uses of properly-supervised cartels as a bulwark of advanced manufacturing, like Japan's, are well-aware of the dangers of pure monopoly.
2. Monopoly industries are frequently a matter of degree, not just of kind, particularly in the period of decades it can take for one nation's industry to establish its dominance. The dominant nation's industry may simply be stronger than the other's, i.e. able to charge higher prices, expand its market share, set technical standards, afford advanced research and development, expand its workforce, and gradually drive the weaker one into its grave.

The key insight here is that the basic unit of success and failure in international economic competition is not the national economy as a whole or specific companies, but industries, an insight for which the fundamental credit must be given to Michael Porter of the Harvard Business School and in particular to his book *The Competitive Advantage of Nations*. If the industries that make up the nation's economy are strong, the economy as a whole will be strong. From the point of view of America's economic well-being, it is a matter of indifference whether company X or company Y prospers. It is not a matter of indifference whether the German or Japanese widget industry prospers at the expense of our own.

So what is America doing wrong that is making us fall behind other nations in the race to develop advanced manufacturing industry? We must first abandon the media-driven illusion, widely propagated in the 1990's, that American manufacturing has made a comeback. This is false because:

1. People saw the economy boom and just assumed that manufacturing must be booming with it, despite lacking hard numbers on this sector.
2. Limited pockets of revival in a few industries do not amount to a general revival in advanced manufacturing when much larger pockets are being driven into decline by foreign competition. Military vs. civilian flat-panel displays are a good example.
3. American manufacturers have become very skilled in hiding their own declines by putting their own brand names on products whose key internal components are now made overseas.
4. Limited growth by American manufacturers does not constitute economic success when foreign competitors are growing three times as fast. It's a relative game.
5. Misleading statistics have been used. For example, it was widely reported that the American steel industry became the world's most efficient during the 1990's. But the figures in question are compromised by arbitrary assumptions that go into calculating them. Similarly, American computer makers have sometimes counted as "American-made" computers which are made in the Far East, packaged in the US, and then shipped to Europe.

So what has caused America, which was within living memory the undisputed world leader in advanced manufacturing, to lose this position?

1. Our low savings rate.

This may seem to have nothing to do with advanced manufacturing per se, but this is wrong, as it is of the very essence of advanced manufacturing that it is highly capitalized. It requires vast capital both for research and development and for plant and equipment. This money has to come from somewhere, i.e. from somebody's decision to invest part of their income. One of the myths of globalism is that the world's financial markets are now so interlinked that it doesn't matter if America doesn't generate enough investment capital because we can just import it.

The first reason this is false is that key nations, desiring to build up their own industries, deliberately limit their export of capital. Japan's banks, for example, are linked in cross-shareholding alliances called *keiretsu* with the manufacturing companies they finance, so their capital goes to them by design. And when it does go abroad, it goes to investments that complement Japanese industry, not that compete with it. Theoretical arguments that this is "inefficient" because it prevents them from seeking a higher return elsewhere are irrelevant: this is what they do do. And they are not changing any time soon: Japan's Ministry of Finance has deliberately refused to meaningfully open Japan's financial markets to the rest of the world so as to allow foreigners access to this huge pool of capital. It cares less whether Japanese banks get the highest return on their investments than whether these investments take place in Japan and create jobs there. The result is that Japanese manufacturing corporations enjoy a lower cost of capital than ours, a huge advantage.

The numbers are huge. As Fingleton writes:

*“at last count Japan was producing \$708 billion of new savings a year – or nearly 60% more than America’s total of \$443 billion. Not only has this enabled Japanese industry to invest nearly twice as much per worker as the United States in the 1990s, but it has meant that Japan has now decisively surpassed the United States as the world’s main source of capital.”*

The second problem with relying on foreign capital is that this means that even if the jobs are created in the U.S, the profits earned by this capital accrue to another nation’s wealth, not ours.

## 2. Our poor education system.

Advanced manufacturing industry tends to locate in high-income nations for a number of reasons, skilled workers being one of them. But if the workers available aren’t skilled, they have lost one of the principal advantages that enables them to compete with cheap foreign labor.

One of the key problems in our education system from the point of view of advanced manufacturing is our tendency to assume that the only worthwhile educational track is the one that leads to college, and that any other path is merely a regrettable failure. We tend to assume that only white-collar jobs are desirable and that all blue-collar jobs are undesirable. But advanced manufacturing produces highly-paid (up to \$60,000/yr) blue-collar jobs, which are accessible, as many white-collar jobs are not, to persons of average I.Q. It would be far better to have strong industrial-arts and apprenticeship programs, like Germany has, than to divide every high school into “college-bound” and “loser” tracks.

Part of our problem is America’s myth of being a classless society, which causes us to be in denial about the fact that 30% of this country is working class and is going to have blue-collar jobs. There is a white-collar bias in American culture that reminds me of nothing so much as the “gentlemen don’t dirty their hands” mentality that destroyed British industry. There is a bias in favor of abstract and verbal ways of making money, like finance, software and law, on the part of the educated elite in this country that does not exist in Germany, where engineering is a prestige profession. In theory, the market should correct this, but the ability of culture and fashion to push people in economically irrational directions is very strong.

## 3. Leakage of our advanced technologies.

It is well-known that many of the products in which we are now being beaten by our international competitors were originally invented in the United States. The transistor and the laser, to take two well-known examples, were both invented by the old Bell Laboratories.

But the real problem is not the pure science itself, but the production technologies and proprietary know-how that American corporations are singularly promiscuous in selling and licensing to foreigners. The Japanese, for example, know full well how to work the following game:

1. Make it difficult for an American company to export their widgets to Japan.
2. Tell them that they are, however, invited to set up a subsidiary to produce widgets in Japan.
3. Make it clear that the best way to do this is by going into business with a Japanese partner.
4. Make it clear that their Japanese subsidiary must develop Japanese suppliers.
5. Let the Japanese partner suck the Americans dry for their proprietary know-how.
6. Let the Japanese suppliers built up by the American company form the basis of a strong indigenous Japanese widget industry.
7. Let the American subsidiary die or be bought out by its Japanese partner.
8. Use the former subsidiary to export to the American market and drive the originating American company to the wall. IBM and Xerox are paradigms of this case. Frequently, all the American company gets out of it is a thin stream of patent and royalty revenue, or profits, while the major value of the business to society at large, the jobs it creates, go overseas. It has been estimated that in the last 25 years, American corporations have transferred technology worth \$500 billion to Japan and been paid about \$9 billion for it.

## 4. The economic nationalism of foreign countries.

Whatever the arguments in favor of free trade, the simple fact is that our key competitors like Japan do not practice it. Whether this harms the consumers of these nations by depriving them of cheaper American goods is irrelevant; these nations do practice protectionism and they show no sign of making more than token changes to this policy.

The result of this policy is that that an American manufacturer wishing to sell in both the US and Japan has a choice: put the plant in the U.S. and be shut out of the Japanese market, or put it in Japan and have access to both markets. The decision two years ago of Corning Glass to lay off 12,000 American workers while doing no such thing in Japan is a good example of this.

Japan is the paradigmatic case, though other nations imitate her to varying degrees. Her government has deliberately chosen to make building up national economic power a higher priority than maximizing short-term consumption. Of course, economic power in the long run is the ability to produce, which enables one to consume, so this does generate consumer well-being eventually, as testified by Japan's rising standard of living.

Japan sees Americans as greedy, shortsighted, and unpatriotic people who choose to consume cheap foreign goods today at the price of destroying the very industries that make America rich enough to afford those goods in the first place. They see themselves as restraining their short-term consumption in order to build up their industries, which maximizes their long-term consumption.

The key solution is not for us to imitate Japan and her hangers-on, because these are very different societies with different values and different ways of governing themselves, even if they superficially seem to be capitalist liberal democracies like the U.S. The solution is mostly for America to return to the policies we had back when we led the world in advanced manufacturing.

**Note:** Eamonn Fingleton has been an editor for Euromoney, Forbes, and the Financial Times, and has been published in the New York Times, the Atlantic, and The New Republic. His book *Blindside: Why Japan is Still on Track to Overtake the U.S. by the Year 2000* was rated one of the ten best business books of 1995 by Business Week. He is an Irishman by birth that has lived in Tokyo since 1985.

## Why the H1-B and L-1 Visas Should Be Abolished

By Ian Fletcher, AEA VP, Gov't Relations

The H1-B visa is used to bring in foreign technology workers; the L-1 visa is used for intra-company transfers. The H1-b quota was raised in 2000 to 195,000; it reverted to 65,000 in 2003. The administration is currently proposing to raise it to *de facto* 325,000. AEA opposes bringing in any foreign tech workers beyond a small number of exceptional scientific talents and foreign executives overseeing US subsidiaries. Why?

- American tech workers are going unemployed, facing age discrimination, and losing their jobs to outsourcing.
- Company representatives that state they "*can't find*" American workers are totally misinformed or they may be looking for American workers at third world wages. This is called wage busting.
- Foreign tech workers are not necessary for American companies to compete. The US has the greatest pool of tech skills in the world.
- Bringing in foreigners to take tech jobs undermines engineering as a profession and discourages young people from pursuing this path.
- People assume that all technology workers are rich dot-com entrepreneurs; in fact, 95% of them are ordinary middle-class Americans.
- So-called safeguards are a joke and an irrelevance. The problem is the loss of American jobs to foreigners; no legal procedure that leaves this basic fact intact has any real significance. There is no right way or wrong way to unemployed Americans.
- Safeguards get evaded, anyway. Although Labor Dept. regulations require companies to pay at least 95% of the prevailing wage, companies are free to use biased data in establishing what this wage is.
- Paul Donnelly of the Center for Immigration Studies estimates that the administrations' new proposal would lead to an annual admission of 325,000 "temporary" workers.
- Worse, the proposal allows the H-1B visa to be extended indefinitely past the six-year expiration for those who have completed the labor certification part of the green-card process. This would give special legal status to otherwise-illegal visa overstayers.
- Four out of five Americans oppose increasing H-1B visa limits, according to a survey conducted by Louis Harris & Associates Inc. 82% of a national cross-section of 1,000 adults opposed Congress "allowing U.S. companies to sponsor 190,000 additional foreign technical workers, as temporary employees for up to six years."
- AEA's position is supported by: AFL-CIO Coalition for Trade Sanity & Industrial Union Council, MADE in the USA, Manufacturing Alliance of Connecticut, Manufacturers for Fair Trade, PACE International Union, Pennsylvania Manufacturers Association, Rescue American Jobs Foundation, Save American Manufacturing, Organization for the Rights of American Workers, United Steelworkers of America, Institute of Electrical and Electronic Engineers, Federation for American Immigration Reform, Center for Immigration Studies, HireAmericanCitizens.org, Carrying Capacity Network, National Society of Black Engineers, Society of Hispanic Professional Engineers, Society of Women Engineers.
- AEA supports **HR 2688** to abolish the H1b visa and **HR 2702** to curtail L-1. HR 2154 is an unenforceable and useless bill.

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**Latest Numbers from the [Bureau of Labor Statistics](#)**

<u>Consumer Price Index:</u>	+0.5%	Mar 2004
<u>Unemployment Rate:</u>	5.7%	Mar 2004
<u>Payroll Employment:</u>	+308,000 <sup>P</sup>	Mar 2004
<u>Average Hourly Earnings:</u>	+\$0.02 <sup>P</sup>	Mar 2004
<u>Producer Price Index:</u>	+0.1% <sup>P</sup>	Feb 2004
<u>Employment Cost Index:</u>	+0.7%	4th Qtr/2003
<u>Productivity:</u>	+2.6%	4th Qtr/2003
<u>U.S. Import Price Index:</u>	+0.9%	Mar 2004

***Other DOL Statistics:***

<b><u>Unemployment Initial Claims:</u></b>	<b>360,000</b>	<b>Apr 10 2004</b>
<u>Federal Minimum Wage:</u>	\$5.15	

p — preliminary; c — corrected

The civilian labor force is the sum of employed and unemployed persons. Those not classified as employed or unemployed are not in the labor force. The unemployment rate is the number unemployed as a percent of the labor force.

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