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The Rusk Center was established in 1977 to foster interdisciplinary research, service and education concerning institutions and processes basic to efficient intercourse among nations. U.S. fiscal and monetary policy has separate emphasis, due to its increasing impact upon international commerce. U.S. trade and investment in a world environment remains the primary focus of its study and policy recommendations sponsored by state and federal entities. The Center also recognizes that internal dynamics of nations remain the major determinant of international relations and that domestic concerns about the quality of life, stability and efficiency will continue to vie for dominance in determining a nation's posture in world affairs. Thus, much of the Center's data collection and analysis dwells on domestic events of nations and diverse disciplinary explanations of their presence and evolution.

Admittedly, the interactions of fiscal and monetary policy, international arrangements and domestic events cannot fully be analyzed in a specific geographic or subject context. Nevertheless, many of the Center's policy development activities concentrate on the North American region and related subjects of agriculture, national development, business-government relations and public governance. These bi-weekly briefings reflect the convergence of the Center's diverse activities and interests.

Facts and details of events addressed in Briefings are gathered through a scanning of major daily newspapers and weekly periodicals, which are cited throughout each article. Sources of related policy and disciplinary material appear in a listing following each article. The purpose is to link facts with policy implications and academic points of view in order to present an integrated and in-depth approach to current issues. Views expressed are not necessarily those of the Rusk Center.

I. FISCAL AND MONETARY POLICY

MONETARY - SMALL BUSINESS BANKRUPTCIES AND THE BANKING INDUSTRY

In the past two years, the U.S. economy has witnessed a sudden surge of bankruptcies which have caused economists to fear that if the current rate continues other businesses will fail in 1982 than in any year since 1932, during the Great Depression (N.Y. Times, 3-31-82, pp. D1+). From 1979 to 1980 the number of bankruptcies increased by 59%, and in 1981 the rate jumped another 43% (Economic Review 67(1):1-11, Jan. 1982). The majority of bankruptcies have occurred in the retail industry, but wholesalers and manufacturers are falling at an increased rate as well. The small businesses, however, are taking the brunt of the current wave of bankruptcies. Among construction firms, for example, bankruptcies in 1981 were up 49% from 1980; small contractors in 1981 suffered a staggering rise of 127% in their bankruptcy rate (N.Y. Times, 4-31-82, pp. D14; Hearings, House Com. on Banking, Financing, & Urban Affairs, Oct. 1981, pp. 220-246). Faced with the specter of bankruptcy, small businesses are turning to commercial banks for help, only to discover that the banking industry itself is undergoing a major reevaluation of its own role in the financial sector. Increasing competition in traditional banking activities from brokers, commercial paper markets, savings and loan institutions, and retailers such as Sears have thrown the banking industry into a state of confusion over whether it should concentrate on diversification or specialization within the financial industry (Economic Review 67(5):13-24, May 1982: N.Y. Times, 2-2-82, sec. 3, p. 11; 4-25-82, sec. 3, p. 1; Bus. Wk., 4-12-82, pp. 70+; American Banker, 3-23-82, pp. 1+).

The increasing bankruptcy rate is the result of a combination of factors. First, the recession is lowering profits and forcing businesses to borrow greater amounts of money to pay debts and maintain inventories. The interest rates small businesses must pay are usually two to four points above the prime rate; so these businesses have been paying interest rates of 20% and above for two years. According to the National Small Business Association, there is, in fact, a 74%
correlation between business bankruptcy and interest rates (U.S. News & World Report, 6-14-82, p. 84; Hearings, House Comm. on Banking, Finance, & Urban Affairs, Oct. 1981, pp. 228-96). Moreover, small businesses are especially vulnerable to high interest rates since they rely more heavily on borrowed money for financing and deal mostly with commercial banks. The National Federation of Independent Business reports that more than 80% of small businesses use banks for loans even though other sources of credit are available (Hearings, Senate Comm. on Small Bus., Sept. 1981, pp. 100-47).

Other causes of increasing bankruptcy rates arise from the Bankruptcy Reform Act of 1978, which went into effect in October 1979. By making bankruptcy less costly and stigmatic, this law has made it more attractive to both individuals and business firms. Under the Bankruptcy Act, individuals going through bankruptcy proceedings are allowed greater exemptions, such as $7,500 for property used as the principal place of residence, $1,700 for a car, $200 for single items of household property, and up to $500 for jewelry. Moreover, creditors cannot touch social security payments, unemployment compensation, local public assistance, veterans benefits, or alimony support. While in 1981 personal bankruptcies accounted for 90% of the total, small businesses, often family-run, are frequently able to go through personal instead of business bankruptcy proceedings (Hearing, House Comm. on Banking, Finance, & Urban Affairs, Oct. 1981, pp. 228-96; Economic Review 67(1):4-11, Jan. 1982). When a small business files for bankruptcy, chapter 11 of the bankruptcy code allows the business either to liquidate itself or to engage in reorganization. If it chooses to reorganize, it is relieved of meeting interest payments immediately, and all creditors in similar situations are assured of being treated equally. The goal behind these protective measures is to let management concentrate on reorganizing its business (N.Y. Times, 6-18-82, p. F2). Although states are able to override or opt out of some provisions of the code, bankruptcy rates have continued to rise in the 30 states that have done so. While only an estimated 20% of the surging rate of bankruptcies in the Southeast can be attributed to the new code, its influence is growing and will contribute more to the number of bankruptcies in future years (Economic Review 67(1):4-11, Jan. 1982).

The changing nature of bankruptcy law practice, also attributable to revisions in the bankruptcy code, is another reason for increasing bankruptcy rates. Bankruptcy lawyers were once considered the "low lifes of the law." Now, however, the Bankruptcy Act has made handling bankruptcies more profitable at a time when more businesses, including major corporations, are going bankrupt. Lawyers specializing in bankruptcy are gaining more respect from their peers and are now advertising with such slogans as "keep your home and car" and "debt relief" (Economist, 6-12-82, p. 45; Wall St. J., 6-9-82, p. 31).

While the effects of the rising bankruptcy rate are subject to controversy, it is generally agreed that the economy will not fall as a result of business failures and that the banks will not lose their financial health. Economists point out that business failures usually mean only a reallocation of the ownership of assets and that canceled debts are spread out evenly among the banks, which are able to absorb the loss (N.Y. Times, 3-31-82, p. D11; U.S. News & World Report, 6-14-82, p. 84). The banking industry has not experienced a net loss in 20 years; commercial banks enjoyed net profit increases of 9.1% in 1980 and 5.7% in 1981. The number of troubled banks fell from 51 in 1970 to 30 in 1981 (U.S. News & World Report, 6-14-82, p. 84). Business bankruptcies, however, are expected to increase the unemployment rate. In addition, declaring bankruptcy has not been totally removed from the social stigma associated with it. Firms reorganized under chapter 11 complain that they are avoided by other businesses and consumers and are hence disadvantaged in the marketplace (N.Y. Times, 3-31-82, p. D11).

While bankruptcies are not significantly affecting bank profit margins, pressures from other sources are influencing both banks' willingness to loan to small businesses and the way banks deal with businesses heading toward bankruptcy. Traditionally, financial services were divided among several types of institutions. Commercial banks engaged in checking, saving, and lending activities; savings and loan
Institutions handled mortgages and gave premiums on savings; security dealers dealt with investments in stocks and bonds; and retailers provided credit cards to their customers. Currently, though, deregulation and market forces are abolishing these clear demarcations, and the profit and stability of banking are encouraging other financial institutions to enter the banking business (Economic Review 67(5):13-24, May 1982). The Depository Institution Deregulation Committee, established in 1980, is gradually abolishing the controlled savings market to allow banks and thrift institutions to compete more effectively. Large corporations are increasingly turning to commercial paper to fill their short-term lending needs (Bus. Wk., 6-12-82, pp. 70+). Brokers such as Merrill Lynch & Co. possess more funds in client deposits than do giant commercial banks such as Citibank and are considering entering the mortgage business (N.Y. Times, 2-7-82, sec. 3, p. 1). Banks are responding to this competition by entering new fields themselves. For the first time since the Great Depression, a U.S. bank holding company, BankAmerica Corp., has bought a brokerage firm, Charles Schwab & Co., and claims that it can get around the Glass-Steagall Act of 1933, which separates commercial banking from investment activities (Newsweek, 12-7-81, p. 78).

Faced with increasing competition, banks are reevaluating their strategy, including their position toward small business. Some banks, such as Citibank, appear to have decided that small business loans are not sufficiently profitable and have been discouraged from making these type of loans. On the other hand, some banks have tried to specialize in small businesses. The Chemical Bank of New York, for example, has more than doubled its small business checking account deposits over the last five years and believes that in the future the small business field will become more lucrative. Another reason for specializing in small businesses is that they have less bargaining power compared to larger corporations (N.Y. Times, 4-25-82, sec. 3, p. 1). While large businesses and individuals often go to competing institutions for comparable financial services, most small businesses deal exclusively with banks. Indeed, a recent survey indicates that while institutions other than commercial banks do in theory provide services required by small businesses, none are actively engaged in small business lending (Economic Review 67(4):54-58, April 1982).

A possible consequence of banks specializing in small business may be decreasing bankruptcy rates. As a business nears bankruptcy, a bank familiar with the business' problems and needs may be willing to restructure loans in return for additional collateral and greater ability to monitor business operations. Banks are already showing a willingness to take this action (Bus. Wk., 6-14-82, pp. 91+). Meanwhile, there is movement in Congress to amend the bankruptcy code, making it more favorable to creditors. Proposals are still in congressional committees, but their future is uncertain since strong criticism of them has come from consumer groups and the National Conference of Bankruptcy Judges (American Banker, 3-24-82, pp. 3+; 6-14-82, pp. 1+).


ECONOMIC/COMMERCIAL - JOINT VENTURES WITH CHINA

China and the Island Creek Coal Company, a wholly owned subsidiary of Occidental Petroleum Corp., have recently entered into an agreement which will likely result in a joint venture to exploit one of the world's greatest coal mines, the Chinese Pinghwa open cut mine in Shandong Province, 500 kilometers west of Peking. The accord, culminating two and a half years of negotiations, calls for Occidental to conduct a feasibility study of the mine. If this study confirms earlier assessments, an agreement on joint development will be signed early in 1983. The development project, which will be the largest transaction between China and a U.S. corporation, is expected to produce 12.5 million tons of coal a year by 1986—compared with the 20 million tons from Occidental's other 27 mines—and 45 million tons a year by the 1990s. The output of the mine will be shared equally until Occidental recovers its initial investment, after which time the corporation will receive 40% of production (N.Y. Times, 4-11-82, sec. 3, p. 2; Bus. China, 5-31-82, pp. 47+; 4-14-82, p. 95).

Joint ventures in the development of natural resources such as coal and oil represent just a portion of the increasing investment funds from the U.S. and other western countries are beginning to pump into China. For the first time in its history, China is actually seeking foreign participation in economic development (Bus. Wk., 5-17-82, p. 44; China Bus. Review, 5-82, pp. 5). Under the leadership of Mao Zedong, China followed a policy of heavy industrial development controlled by a centralised command economy similar to the one adopted by the Soviet Union. Foreign investment, for the most part, was prohibited since the government feared it would encourage the growth of dangerous "bourgeois tendencies" in Chinese society. After the death of Mao in 1976, China tried to accelerate its economic development, especially in the heavy industry sector, with the help of foreign investment; but this strategy ultimately failed. China was short on funds, inexperienced in the management of technology transfer programs, and did not hesitate to cancel contracts already being performed (Bus. Wk., 5-17-82, p. 44; China Bus. Review, 7-81, pp. 18+).

Under the current leadership of Vice Premier Deng Xiaoping, China has significantly altered its economic goals from encouraging heavy industrial growth to "unifying" China's economy so that it grows steadily and uniformly (China's Foreign Trade, 11-81, pp. 24). This policy of "readjustment" constitutes a major shift in the outlook of the Chinese leadership. Instead of miraculously matching Britain and the U.S. in heavy industry within a few years as Mao sought to do, Deng's goal is to improve the living conditions of his people, especially China's 800 million poor peasants. Basic capital construction investment is slowing, and development in other areas such as energy, light industry, and agriculture is being emphasized (China Bus. Review, 7-81, pp. 18+; China's Foreign Trade, 11-81, pp. 24). Moreover, China is hoping to aid this readjustment by freeing market forces to a limited extent and actively encouraging foreign investment through an extensive advertising campaign. Bank credit and surplus funds are replacing grants from the central government for business capital; central government spending currently represents only 27.1% of total productive investment in China (Far Eastern Econ. Review, 5-28-82, pp. 584). In addition, a new constitution is being drafted which will both remove the tenets of the explosive socialist cultural revolution from China's legal framework and legitimize private and foreign-owned enterprises (Bus. China, 4-26-82, p. 63).

According to Wei Yaming, vice minister of Foreign Economic Relations and Trade, China hopes to attract foreign investment in energy development, light industry, building materials, agriculture, and tourism (China Wall St. J. Wkly., 6-14-82, p. 8). Of these areas the Chinese attach the greatest priority to energy development. In 1980 coal production, which contributed 70% of China's primary energy supply, fell by about 5%. Crude oil production declined in 1981 by 4.5%, and natural gas fell by 10.1% (Far Eastern Econ. Review, 5-7-82, p. 56). Occidental's joint venture is just one of several projects between China and foreign corporations designed to exploit China's energy resources.
Joint ventures will also be established to develop offshore oil located in the South Yellow Sea, the waters near the Hainan Islands, and the Gulf of Tonkin (Bus. China, 2-26-82, pp. 29-)

While the Chinese regard energy development as the most important area of western participation, the sultus of the most prevalent western presence is the four economic zones China has set up for western commercial enterprises: Zhuhai, Shenzhen, and Shantou in the province of Guangdong and Xiamen in the province of Fujian. Within these zones, foreign corporations receive favorable terms for capital investment, and a number have already invested in industrial and agricultural industries, tourism, housing, and other commercial undertakings (China's Foreign Trade, 11-81, pp. 24). The Chinese, however, are still inexperienced in handling westerners and at times have miscalculated what would attract them to these zones. Having built western-styled villas, China offered to lease them out for 50 years to foreigners with business in the zones. As of the beginning of the year none had been sold, since visas allowing automatic entry and exit are limited to one year (Economist, 1-9-82, pp. 451).

While the attitude of the Chinese leadership toward foreign investment is currently very positive, foreign corporate executives are generally hesitant about investing in China. They are concerned that the country is too unstable for long-term investment and that the Chinese legal system and laws are insufficient to protect their interests. China has assured the foreign concerns that they will be able to make a reasonable profit and that if assets are nationalized, due compensation will be paid (Asian Wall St. J. Mkly., 5-31-82, p. 8; 6-14-82, p. 8). Nevertheless, corporations are currently making smaller investments than they were just after the death of Mao Zedong; in the zones, the foreign exchange component for the average project is only $580,000 (China Bus. Review, 3-82, pp. 35 & 36).

Other reasons for the hesitance of corporations to start businesses in the zones are the problems in hiring and firing the labor force. Laborers in the zones are usually chosen through a state labor service company, although employers can advertise for workers by word of mouth. In the past, dismissal of incapable workers was difficult and sometimes impossible. While new rules articulated in November 1981 have allowed employers to put a worker on a six-month probation, foreign businesses still are dissatisfied with their lack of control over employment. In branch offices of such firms as banks and trading companies, management positions are also hard to fill adequately. With business generally slow, one person often must operate an office alone and thus possess expertise in both administrative and secretarial functions. Most of these positions are being filled by single females in their 20s and 30s (Bus. China, 1-20-82, pp. 9; 4-14-82, pp. 49).

Some corporations have become frustrated in dealing with China because of the years it often takes to negotiate a joint venture and the lack of immediate rewards. Chinese negotiators avoid details which must be worked out under many foreign countries' joint venture laws. The Chinese officials reason that it is better to enter into an agreement in good faith the details will work themselves out later. Experts and successful business partners with China agree that patience is one of the most important factors in dealing with the country (China Bus. Review, 3-82, 35 & 36; Asian Wall St. J. Mkly., 5-3-82, p. 6; N.Y. Times, 4-11-82, sec. 3, p. 2). In addition, many successful western negotiators have emphasized the need to develop close personal contacts with their Chinese counterparts. Otto Clark, president of a small copying firm, recently entered into a 20-year agreement with China's National Bureau of Instrumentation. This deal shocked the copying industry, which expected the contract to go to a much larger firm. Clark attributes his success to his friendships with Chinese officials; the negotiations reminded him of "courtship a woman" (Asian Wall St. J. Mkly., 5-5-82, p. 6). Armand Hammer, head of Occidental, emphasized that to be successful in dealing with Chinese corporate leaders must participate directly in negotiations (N.Y. Times, 4-11-82, sec. 3, p. 2).

As long as China's current policy of readjustment is maintained, foreign investment will probably continue to be encouraged. The future may well substantiate Armand Hammer's claim that "solid business
practices transcended ideology" (N.Y. Times, 4-11-82, sec. 3, p. 2). The leftist Maoist movement in China, however, is far from dead, and it is estimated that half of the communist party's membership has sympathy for extreme leftist doctrine (Bus. Wk., 5-31-82, pp. 454). So far the moderates seem to have retained control, claiming that ending foreign trade would be like "not eating for fear of choking" (China Bus. Review, 1-82, pp. 51). Moderate policies, though, may encourage more rightist views to be articulated; if so, the Chinese leadership may have to compromise with the left to avoid being accused of reviving "bourgeois elements" in society (Bus. Wk., 5-31-82, pp. 454).


III. DOMESTIC ISSUES

A. HUMAN DYNAMICS - YOUTH UNEMPLOYMENT

As the economy continues to suffer, so does the search for employment, especially for the youth population. In 1981, youth unemployment reached 21.7%, with the rate for black youths peaking at 39.6% (Time, 2-8-82, p. 24). A variety of conditions are cited as causes for increasing unemployment among young people. The recession, the rise in the number of women and immigrants entering the labor force, and the decline in manufacturing are some of the external factors, whereas internal determinants include an apathetic education system, poor work attitudes among teenagers, and problems within the home (U.S. News & World Report, 1-18-82, p. 53). Of all unemployed youths, 51-69% come from low-income families. Such statistics pose a question for policymakers: should attention center on the unemployed who will potentially succeed in the job market or on the disadvantaged who face the poorest prospects (Futurist 15(2):68-69, Feb. 1981)? The search for an answer to youth unemployment remains an urgent priority even after $80 billion in federal expenditures over a 20-year period (Personnel J. 60(5):362-66, May 1980).

In deciding whether to hire young workers, employers face numerous difficulties such as minimum wage, compulsory education, and certain labor laws. Some employers claim that the youth population is simply priced out of the market. They are not convinced that an inexperienced young person is worth minimum wage. Although a subsistence wage for teenagers might promote their hiring, such action could simply displace the unemployment statistics. With adults comprising 70% of the current labor force, businesses might hire youths at a cheaper rate to replace their adult counterparts (U.S. News & World Report, 3-30-81, p. 81). Although the Reagan administration supports the idea of a lower minimum wage for the youth population, labor unions contend that a wage differential would severely damage the employment prospects of adults. It is possible that the private business sector has the most to gain from a subminimum wage (Personnel J. 60(5):362-66, May 1980).

The effectiveness of government-subsidized training programs for youths has been questioned. Constant changes in social values among teenagers seem to doom the efforts of many youth programs (Evaluation Review 54(4):167-80, April 1981). The Reagan administration is counting on help from the private business sector to alleviate youth unemployment. Approximately 6.8 million private employers supply 85% of the jobs in America. While government efforts through the Comprehensive Employment and Training Act (CETA) provided 4.7 million jobs for disadvantaged Americans, its last year, the program for 1982 will offer only 2.4 million training jobs because of budget cuts (U.S. News & World Report, 1-18-82, p. 52). Labor Secretary Raymond Donovan is highly critical of CETA, stating that the expense of the program is not worth the return (U.S. News & World Report, 3-30-81, p. 81). There are, however, shades of success in subsidized programs. In Baltimore, a three-year, $50 million program was subsidized to employ 22,000
disadvantaged youths. Once the program was concluded, 80% of the employers surveyed approved of the young participants’ work and attitudes (U.S. News & World Report, 11-23-81, p. 77). Rather than federal training and employment programs, the Reagan administration believes tax incentives which promote the hiring of youths are the best alternative. To reward the employer for training and hiring youths, the administration presently offers such benefits as work incentive credits, targeted job tax credits, and welfare credits (Personnel J. 60(5):362-66, May 1980).

As difficult as it is for educated youths to find a job, the problem is intensified for uneducated teens. Many consider a failing education system to be the root of the unemployment problem. Schools are graduating students unable to read and write well enough to convince employers they would be valuable employees. Pressure is increasing, especially from parents, for schools to right the wrongs of the present system. Educators reply that lack of funds makes dramatic change impossible. Efforts are being made, however, to improve student attitude. For example, the private business sector, government, and educators have joined forces to provide funds to Control Data Corporation to establish the National Fair Break Program. Through the use of 100 learning centers across the nation, students can strengthen their abilities in math, science, social science, reading, and writing from computer-based courses. Obviously, the goal of such a program is to provide the opportunity for developing a more solid educational foundation. A spokesman for Control Data stresses that although the cost of the program will demand over $600 million to train and place one million teens, the U.S. economy would reap benefits of $2.5 billion over a three-year period (Personnel J. 60(5):362-66, May 1980).

The social costs of youth unemployment are enormously high, and taxpayers actually shoulder much of the burden through expenditures for welfare and refore programs (U.S. News & World Report, 1-18-82, p. 533). A general mood among part of the youth population of rejecting authority whether in school, church, or family is reflected in their employment attitudes (Evaluation Review 5(4):167-80, April 1981). Likewise, some employers believe many teens are simply too selective in their job search. Youth unemployment for October 1981 was 20.6%, yet state employment services reported 540,000 unfilled jobs from the previous month (U.S. News & World Report, 11-23-81, p. 77). Perhaps low-skilled, low-paying jobs do not meet unrealistically high expectations of unemployed young people. Whatever the reasons, policymakers and society in general are searching for solutions. One of the best possible beginnings for a solution may be the continued merging of efforts by government, private business, and the education establishment. Motivated by tax incentives, employers may begin by developing alternative work and educational opportunities within schools (Evaluation Review 5(4):167-80, April 1981; Monthly Labor Review 105(2):13-16, Feb. 1982). By recognizing youth unemployment as a shared social problem, parents, government, the business community, and educators can assume the responsibility necessary to help alleviate the obstacles currently faced by a frustrated and restless youth population.


B. RESOURCES - SIMPLIFIED WEAPONS SYSTEM

Reagan administration plans to spend large amounts of money on defense over the next several years have brought about much discussion of how that money can best be spent. Central to this debate is the role of high technology weapons systems in U.S. defense now and for the future. Proponents of a concentration on sophisticated technology in weaponry argue that it is necessary to meet changing world conditions...
and to offset the numerical superiority of Soviet bloc nations. Opponents counter that the high cost of these systems exacerbates numerical inequalities and that their complexity may actually serve to diminish combat readiness and capability.

Even opponents of high technology weaponry do not argue that the military should cease developing and applying more sophisticated techniques to military systems. Rather, their concern is more that emphasis is placed on the wrong types of technology and on technology without regard to how it affects U.S. war-fighting capabilities. As one analyst has described the situation, the military has pushed technology without distinguishing between innovations that merely make weapons more complex and those that represent steps toward effectiveness and simplicity (Atlantic Monthly, 5-81, pp. 21-33).

A number of reasons are behind the increasing reliance upon technologically sophisticated weaponry. One reason, as mentioned, is that technology is expected to compensate for numerical inferiority. The potential opponents of the U.S. have more planes, tanks, ships, and men than does the U.S.; so weapons systems must be designed to allow each weapon individually to defeat several of its counterparts. Thus, for example, the F-15 airplane, with a designed exchange superiority of 88-1 over a less sophisticated aircraft such as the F-5, should be a better investment than procuring ten times as many F-5s.

Another reason for pursuing high technology is to match or offset technical advances in weaponry available to potential opponents. An example is the success of "smart" missiles in the war over the Falkland Islands. U.S. military planners learned from that conflict that small missile systems can be very effective against sophisticated planes and ships. The Navy now plans to design even more sophisticated warships, with antimall defense systems and electronic jamming capabilities to protect them against such weapons (Wall St. J., 6-4-82, pp. 14).

Yet another factor behind the move to sophisticated weaponry is the desire to meet hypothetical needs. Weapons systems may be designed to counter possible advances in enemy technology, or a policy change may require new weapons capabilities. For example, creation of the Rapid Deployment Force mandates lighter, more transportable equipment, and, because the Force is small, weapons with high firepower capacity. New weapons must therefore be sought.

Promotion of high technology is also related to the bureaucratic self-interest of military planners. In the defense bureaucracy, status is measured by the number of people under one's command. Thus planners are drawn toward high technology systems requiring engineers and other personnel to be placed under their control, as opposed to possible simpler systems accompanied by less planning and development and consequently a smaller number of subordinates. In addition, planners know that if they are not successful at engineering contracts for weapons builders, their chances of lucrative employment after retiring from the military are lessened (Atlantic Monthly, 5-81, pp. 21-33).

The proposed outlay for military research and development for fiscal year 1985 exceeds $24 billion (Congressional Qrly. Mkt. Report, 5-1-82, pp. 2-13). With such massive amounts of money being spent on high technology weapons, resources are in danger of being wasted or used counterproductively. Critics argue that in some areas the danger has become a reality. They point to inherent flaws in the planning process that contribute to a diminished defensive capability. While military planners are always optimistic about how much they will have to spend on new equipment, they forget or fool themselves about the need to budget for operations and maintenance and to plan for the needs and capabilities of the personnel who will operate the weapons systems. Because of these failings, the services frequently have to cut funds for new equipment in order to pay for operations and maintenance as well as the usual cost overruns. When a service has momentary prosperity, it typically uses its surplus money to purchase new weapons systems rather than to bail out old ones (Atlantic Monthly, 5-81, pp. 21-33; Military Review 42(1):60-68, 1982).
This flawed planning process has two potential adverse effects. First is the danger that weapons produced from this process will not add to, and may detract from, military preparedness. One example often referred to is the F-15 airplane. Because this highly sophisticated plane is costly, fewer planes are procured for the services each year. In addition, the large number of complicated components leads to a lower probability that all parts will be working at the same time, as demonstrated by the relatively poor record of this plane in being available for flights. Finally, the F-15 relies upon a sophisticated radar system to identify and attack enemy aircraft, but the radar itself can be detected by the enemy. Since the success of fighter aircraft depends heavily upon the element of surprise, the danger of this detectability is apparent. Even with those flaws, however, the F-15 has performed quite well in actual combat between Israel and Syria (Atlantic Monthly, 5-81, 21-33; Time, 6-21-82, p. 24).

Another example is the TOW (tube-launched, optically tracked, wire guided) missile system, which allows a soldier to destroy an enemy tank. To do so, he must fire the missile and then track the tank in order to guide the missile to its target. Tracking requires that the soldier expose himself to enemy fire for up to 10 seconds. In addition, at $6000 per missile the system is so expensive that soldiers can be trained by firing live rounds only once a year (Atlantic Monthly, May 1981, pp. 21-33).

Perhaps an even more important criticism is related to the high cost of these weapons systems. Not only are fewer weapons purchased, but the magnitudes of the cost overrun is such that they have already negated all the Reagan administration's reductions in social spending (Nat'l. J., 12-12-81, pp. 2192-97). The economic effect of the high cost could be increased inflation and interest rates because defense spending increases aggregate demand without increasing the supply of purchasable goods. Increased demand and possibly higher inflation in turn cause an increase in desired money holdings. Since the administration plans a fixed rate of growth for the money supply, interest rates would have to increase beyond even their present high level (Federal Reserve Bank of N.Y. Qtrly. Review 6(2):21-31, Summer 1981).

A further adverse impact of the concentration on high technology weaponry is the diversion of resources away from civilian applications. By one estimate, more than one-third of all engineering and scientific personnel in the U.S. are employed in the development of military-oriented technology. While a "spin-off" effect is claimed for military technology—that is, breakthroughs can be applied in the civilian sector—the phenomenon appears to be limited. Yet more than 20% of military scientific research will have applications in civilian technology (Impact of Science on Society 3(1):75-84, 39-48 & 49-60).

If, as critics suggest, much of the money spent on weapons development and procurement is wasted, then a great social loss occurs. This is one reason why the bipartisan congressional reform caucus is trying to become a watchdog over the military budget process. The caucus has proposed cutting back purchases of some of the more sophisticated weapons systems in favor of greater numbers of less sophisticated systems. While the caucus is meeting resistance from within the military bureaucracy, it does represent a significant step toward greater consideration of the purposes of technology within the military.


IV. NORTH AMERICA

DE LA MADRID'S ECONOMIC PLAN FOR MEXICO - The Mexican Institutional Revolutionary Party (PRI) candidate, Miguel de la Madrid Hurtado, officially announced his economic development plan May 25 during a presidential campaign stop at Leon, Guanajuato. As expected, the plan is similar to that followed by the current president, Lopez Portillo. De la Madrid describes his approach as "economic realism" in which Mexico's economic strategy will be compatible with international conditions. In other words, Mexico will try to maintain a more reasonable exchange rate to encourage tourism and investment in the border areas. De la Madrid's stated goal is higher living standards for the majority. In order to achieve this he hopes to reduce Mexico's inflation by cutting public expenditures and encouraging modernization (sans subsidies) in the private sector. In addition, he hopes to increase more exports of oil, not just oil, to improve Mexico's balance of payments deficit, and will probably favor labor intensive industries to get more Mexicans working. De la Madrid warns that his austere fiscal policies will require self-sacrifice at first but over the long haul should produce a moderate and stable economic growth for Mexico. Many U.S. bankers view de la Madrid, a Harvard educated public administrator, as the most capable choice to lead Mexico through the next few critical years. His success or failure will have a tremendous impact on Mexico's future social stability, as well as the future of the PRI (Latin America Wky., Report, 5-14-82, p. 8; 10-2-81, pp. 14; Bus. Latin America, 6-982, pp. 17; Latin America Regional Reports, 6-4-82, pp. 14).

Although Mexico is labeled a democracy, the Presidential elections resemble Tammany Hall politics in that political bosses choose who the party candidate will be. The strength of the party is immense; since its inception in 1929 it has never lost a presidential, gubernatorial, or senate election. The PRI is composed of three major interest groups - the National Federation of Peasants, the Mexican Workers Federation, and the National Federation of Popular Organizations; and although the three interest groups have conflicting ideologies, the altos within these organizations compromise in order to share political power. The paradox of Mexican politics is that the party is obviously elitist but derives its power from the support of the populace at large. The interest groups within the party contribute to its cohesion and legitimacy by stressing the revolution's ideals of social justice and democracy. Moreover, single members realize that alone they have no power; only through the party machine can they rise within the Mexican government. This axiom prevents party dissension and is one reason opposition political parties are so unsuccessful. They concentrate on winning single converts rather than working for the support of the mass organizations which keep the PRI in power (Euromoney, 4-82, pp. 27; Academy of Pol. Sci. Proceedings 34(1):55-66, 1981; World Politics 32(2):194-227, Jan. 1980).

Theoretically, each interest group within the party is consulted before the party chooses a nominee. In actuality, the candidate is usually chosen by the sitting president but token consideration is given to interest group elites to secure unified support. However, during the nomination of de la Madrid, labor movement leader Fidel Velazquez was overlooked in the selection process. He visibly displayed his displeasure by declaring that the labor movement would not negotiate workers' wage demands. Now de la Madrid is in the awkward position of having to court the labor movement to assure party cohesion (Latin America Wky. Reports, 10-8-81, p. 101).

Besides Intraparty rivalries, de la Madrid will inherit a balance of payments deficit of $10 billion and an economy still hurting from the 40% devaluation of the peso last February. In the wake of the devaluation Portillo has tried to appease the labor movement and guarantee their loyalty to the party candidate by decreasing wage hikes of 10%, 20%, and 30%, depending on the employee's wage bracket (with the largest increases going to those in the lowest wage categories). Because the government has agreed to subsidize the increase, de la Madrid will inherit an even larger deficit (Bus. Wk., 4-19-82, pp. 49; Time, 10-5-81, p. 41). But the party candidate is not waiting until his inauguration to begin implementing his policies. His transitional team of Finance Minister Jesus Silva Herzog and Planning and Budget Secretary
Ramon Aguirre, appointed by Portillo, has already implemented portions of de la Madrid's efficiency policy by announcing spending cuts in the public sector and postponing several public works projects (Latin America Mkly. Report., 5-14-82, p. 8).

The implications for the United States of de la Madrid's economic program are still uncertain, but his emphasis on investment in industry, agriculture, hospitals, transportation, and other infrastructure indicates that Mexico will require imports of machinery and equipment to achieve its objectives. The U.S. should be able to maintain its share of exports to Mexico with transportation equipment, agricultural machinery, and other equipment Mexico will need to build its infrastructure (Bus. Wk., 5-24-82, p. 62; Bus. Am., 1-11-82, pp. 22+).

Most fiscal conservatives believe de la Madrid's tough fiscal policies will strengthen the Mexican economy. While he is committed to an anti-inflationary policy, he also declared that such a policy should not inhibit economic development. De la Madrid's fundamental goals for the Mexican economy are growth and more equal distribution of wealth in order to achieve a higher standard of living for the majority of Mexicans (Euromoney, 4-82, pp. 20+). His success in raising the quality of life for most Mexicans is likely to determine Mexico's future stability and the continuation of the PRI monopoly. Failure could produce more inflation, unemployment, and social unrest, which would inevitably mean more Mexicans flocking to the border areas and crossing into the U.S. to find jobs.

U.S. direct investment in Mexico rose to $5.9 billion in 1980, augmenting U.S. desire that the stability of our southern neighbor is maintained (Bus. America, 1-11-82, pp. 22+). In the past the presidential succession has insured the stability of the Mexican government, but Portillo's political reforms have paved the way for more political debate. The number of opposition party members in the Chamber of Deputies increased to 104 out of 400 in the last election, and although the President still controls the legislature, the possibility of stronger opposition is present. In the 1979 legislative election 50.8% of the eligible voters did not vote. Should worsening economic conditions force these people to the polls, their voting strength could be felt through an increase in opposition party members in the government (Academy of Pol. Sci. Proceedings, 34(1):55-66, 1981). The effects of de la Madrid's policies will not be obvious for some time, but their success or failure will impact Mexico's political, social, and economic future. Success will mean continuation of the political stability offered by the PRI. Failure will mean social unrest, the increased strength of opposition forces within the government, and genuine uncertainty of Mexico's political future.


V. EDITORIAL

FINANCIAL DISCLOSURE - Senator Malcolm Wallop, Chairman of the Senate Select Committee on Ethics, announced at the beginning of the current 97th Congress that he intended to hold hearings on amending the Ethics in Government Act (TIME, 1-26-81, p. 29), and while no hearings have yet been held, debate over the controversial act will intensify in the months to come. Among other provisions of the act is the requirement that extensive financial disclosures be made by all top public officials, including federal judges, Congress members and senior staff, and executive officers. The Ethics Act also imposes on former government officials postemployment restrictions, the violation of which is a criminal act punishable by as much as a $10,000 fine and imprisonment for not more than two years (18 U.S.C.A. 207 (1981)).
The financial disclosure regulations of the act require all nominees to high-level government jobs to fill out detailed forms on many of their assets and liabilities. Business-related personal property and most gifts must be recorded on the forms as well as all income and debts excluding home mortgages, although most income and debts must be stated only within broad categories instead of precise dollar figures. When entering government office, some top public officials usually prefer to establish a blind trust managed by an independent trustee. The Ethics in Government Act recognizes that in the past officials often knew what was held in these trusts and so imposes new restrictions on them. Now, for example, the trust's holdings cannot be dominated by stocks relating to the beneficiary's government positions (Time, 1-26-81, p. 29; U.S. News & World Report, 1-26-81, p. 43). The part of the act dealing with post-government employment activity creates three major restrictions. First, former officials may not represent or even assist by their presence, a client or firm concerning matters in which they as government employees had previously participated both personally and substantively. Second, in matters for which the former official had formal responsibility but was not personally involved, similar prohibitions exist for two years. Finally, former senior employees are banned for a year from contacting their old government agency with the intent of influencing it (J. of Patent Office Society 62:272-31, Dec. 1980).

Opponents of these provisions of the Ethics Act have mounted a host of attacks against the law. They insist it is an invasion of privacy that exposes public officials to harassment by political enemies. In addition, opponents claim that satisfying the regulations slows up the recruitment process for a new administration, which must now sit down with each nominee along with a banker and an accountant to determine whether the law can be met (Newsweek, 12-15-80, p. 28). J. Jackson Walter, Director of the Office of Government Ethics, further charges that while the conflicts of interests which the law is supposed to prevent are rare, problems in filling out the financial disclosure forms are innumerable. Finally, opponents accuse the law both of discouraging people in the private sector from entering public service and of preventing public officials from leaving their posts when such resignation might be beneficial to the system (Print, House Comm. on Interstate & Foreign Commerce, May 1979).

Supporters of the act argue that, after the scandals of Watergate, Iran-Contra, and others, it is necessary to strengthen the confidence of people in the integrity of government. Moreover, supporters believe the evils resulting from the "revolving door" phenomenon—the tendency of experts and others to shift back and forth from regulatory agency to regulated industry—must be averted as much as possible.

Both sides of the controversy agree in principle that the need to recruit competent people must be balanced against the need to maintain the integrity of government; they merely disagree where that equilibrium should lie. Indeed, opponents of the act usually advocate going back to the checks on government impropriety which existed before the act. With the scandals of the last decade, however, it is hard to understand how the old checks could be sufficient. The Ethics in Government Act polices officials not so much as it firmly establishes higher standards of conduct which are so visible as to demand constant consideration.

Opponents point to recruiting problems, but these must be judged by whether they could have been avoided by application of the rules existing before passage of the current law. The only person known to have turned down a cabinet post because of the ethics law was Clifford Hansen, Reagan's first choice for Interior Secretary. His refusal was based on his unwillingness to relinquish grazing rights his family owned on federal land. Yet Hansen, justifiably, would have had to make this same choice even before the enactment of the Ethics Act (Time, 1-26-81, p. 29). While the effects of the disclosure requirement may be more profound at the subcabinet level, statistics pertaining to the matter are not available. Indeed, even if a recruiting problem does exist in the lower levels of government, the disclosure law should only undergo fine-tuning. The disclosure form invades the privacy of officials to an unnecessary extent in certain instances, as with questions concerning traffic violations resulting in a fine over $25. However, the hesitance of potential employees to comply with disclosure requirements may in
fact arise from real conflicts of interest. If the requirements discourage persons from entering public service, the law may be doing the job for which it was designed.

The opponents' argument that the post-employment restrictions are too harsh similarly lacks hard evidence to support it. Any difficulties officials in the Carter administration experienced in procuring private sector jobs at the end of their term of employment are not linked to legal restrictions. The ethics law does not prohibit advising or counseling activities nor is it much more restrictive than the old law. The one-year ban on communication applies only to the agency in which the former employee was an official (J. of Patent Office Society 62:721-31, Dec. 1980; Creighton Law Review 14:707-21, 1981). The Ethics in Government Act constitutes a good balance between the need for the continued exchange of expertise between the private and public sectors and the need to avoid both "switching sides" in a controversy between public and private sectors and the use of undue influence.


