economic condition suggests that the U.S. could influence future Cuban actions through a progression of positive economic rewards. Such a policy might encourage Castro at least to reduce his political involvement in other areas of the world, enabling the U.S. to develop a more productive Latin American policy. The current U.S. policy, favoring military aid to much of Latin America in order to thwart Cuban activism, stifles foreign investment because it heightens fears of political and economic instability. A more economically oriented policy would enhance diplomatic relations as well as foreign investment in the region (Bus. Latin America, 1-13-82, pp. 9; Leogrand, 1982; Schulz, 1981).

While Castro may be sending conflicting signals to the U.S., his ultimate goal is the same—to boost Cuba’s hard-currency earnings through increased sugar and tobacco exports and an augmented tourism industry. The current administration, doubting Castro’s sincerity towards amicable relations, is trying to prevent Castro from achieving this goal and to force Cuba into even greater dependence on the Soviets, principally to put additional stress on both their economies. Although the success of this policy is uncertain, the outcome of other policy options is also questionable. Improved U.S.-Cuban relations seem possible only if Castro is willing to give up the political infamy he has attained by being the scourge of the U.S., but Castro may not be willing to relinquish his revolutionary reputation in perpetuity for improved U.S. relations.

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The Dean Rusk Center was established in 1977 to foster interdisciplinary research, service, and education concerning trade and investment. U.S. fiscal and monetary policy has been a major focus of Center-study because of its increasing impact on international commerce. Other areas of concern include international political and military relations and various types of social and cultural exchanges. The Center recognizes, however, that the internal affairs of nations remain the major determinant of international relations and that domestic concerns about the value of the society, its social dynamics, and the availability of resources will continue to vie for dominance in determining a nation's posture in world affairs. Thus, much of the Center's work dwells on domestic events and different disciplinary explanations of their presence and evolution.

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

1. FISCAL AND MONETARY POLICY

FISCAL - THE FLAT TAX OPTION

The U.S. Internal Revenue Code is reputedly one of the most complicated tax systems in the world. Given present public concern over federal government deficits and the need to find an extra $20.7 billion in revenues for the compromise 1983 budget, much attention has been drawn to the present tax system. Senate Finance Committee Chairman Robert Dole (R-Kan.) advocates a step-by-step evolution of federal income tax toward a system of simpler rules, lower rates, and a broader taxable income base (N.Y. Times, 6-30-82, p. 29). Together with House Ways and Means Committee Chairman Dan Rostenkowski (D-Ill.), Senator Dole has introduced legislation designed to reduce tax noncompliance by increasing IRS enforcement powers and penalties and making greater use of tax withholding. This initiative follows IRS concern over growing tax avoidance (Congressional Qtrly. Wkly. Report, 6-26-82, pp. 1521; N.Y. Times, 7-12-82, p. 17; U.S. News & World Report, 4-19-82, pp. 43+). Returns audited dropped to 1.8% in 1981, and a recent General Accounting Office report expressed doubts about IRS ability to maintain the system's integrity (Chnl. Sci. Mon., 6-25-82, pp. 1+; N.Y. Times, 7-10-82, p. 27).

More provocative legislative proposals aim for a radical simplification of the whole tax structure. A variety of flat rate tax proposals have come from both sides of the political spectrum, but all claim that a flat rate on a broader taxable income base (i.e., with tax shelter deductions eliminated) would maintain or increase government revenues at lower marginal tax rates. Senator Bill Bradley (D-N.J.) proposes a system of four tax rates, from 14% to 28%, and retention of some deductions, such as interest on home mortgages. Representative Leon Panetta (D-Calif.) proposal, termed the Income Tax Simplification Act of 1982, uses different percentages but has the same general thrust (Economist, 6-26-82, pp. 21+; Congressional Qtrly. Wkly. Report, 6-6-82, pp. 1331-34; Wall St. J., 7-12-82, p. 18; Bus. Wkly., 7-19-82, pp. 1941).
Advantages claimed for these flat rate proposals are many. With the ability and incentive to avoid paying taxes reduced, compliance should increase. Lower overall rates would discourage investment in nonproductive tax shelters, leading to more efficient growth performance as funds are directed into productive capital formation. Liberal legislators see simplification as a means to correct a system that violates the concept of progressivity by allowing richer taxpayers to avail themselves of a host of tax avoidance schemes. Conservative proponents see the idea both as a way to stop government from using the tax code for social objectives and as a necessary structural reform to support "supply side" economic programs (Wall St. J., 7-8-82, pp. 11; Natl. J., 5-15-82, p. 879; 4-10-82, p. 641; Newsweek, 7-19-82, p. 5; N.Y. Times, 6-27-82, p. E9).

Without doubt, the present tax system has grown into a hydra of alarming proportions. Congress has found irresistible the use of the tax code to extend favors or implement new programs without the inconvenience of direct spending. A key reason statutory tax rates are as high as they are is that Congress has steadily narrowed the definition of taxable income in response to pressures from one vested interest or another. The legislature's vulnerability to lobbying, with generous campaign contributions in the background, can explain this proliferation of tax loopholes. But a good tax system is efficient, simple, and "fair." This concept of equity has plagued economists and other scholars for decades. Equity theorists ask whether existing law treats equals equally (horizontal equity) and whether it differentiates appropriately among unequals (vertical equity). Theorists who concentrate on efficiency assess the tax law and how it allocates economic resources. The irony is that under both approaches, the Internal Revenue Code can be heavily criticized (Bittker, 1979; Congressional Qtrly. Wkly. Report, 6-5-82, pp. 1331-34; Wall St. J., 7-8-82, pp. 14).

Inflation has also played havoc with the system. General price rises have pushed taxpayers into higher and higher tax brackets. The average marginal tax rate faced by individuals in 1965 was 21.8%; by 1981 it was 32.2%. Obviously, as the rate goes up the pressure to find tax shelter relief or otherwise to evade taxes increases. Moreover, during inflationary times the U.S. tax system subsidizes borrowing and imposes a capital levy on funds lent by savers, because changes in the purchasing power of the dollar are not recognized in the determination of taxable income and deductions (Friedman, 1981). Tax liability is incurred not only on real interest and investment income, but also on the part of reported interest that compensates for the decline in the real value of the funds invested. In the case of the borrower, interest deductions can be made for the inflation premium. Thus, we find anomalies like negative costs of home ownership, excessive consumer borrowing, and the lowest savings rate in the Western industrialized world (Congressional Qtrly. Wkly. Report, 6-5-82, pp. 1331-34).

Fairness has always been a difficult issue for politicians to contend with. A steeply progressive tax table has generally been regarded as equitable, under the assumption that ability to pay increases disproportionately as income goes up. Now, however, some scholars are questioning this idea. They note that steep progression depresses overall savings in the society, since the rich are known to save a greater proportion of their income. Investment and risk taking are thus inhibited, and the adverse, long-term impact on growth harms everyone (Taxes 60:16-21, Jan. 1983). Moreover, some recent studies have shown that reducing income inequality depends as much or more on how government funds are spent than it does on the steepness of the progressive income tax (King, 1980; Thurow, 1980). Another aspect of the problem is that high progression may aggravate political, rather than reduce social, tensions. Some political scientists express concern that public cynicism about the existing tax system will undermine the general respect for law upon which the authority to govern rests (N.Y. Times 12:611-12, March 1981; N.Y. Times, 6-27-82, p. E5). Unfortunately, however, there is no obvious way of deciding whether mild or steep progression is "fairer." The decision is intrinsically a political one.

Even if some form of modified flat tax rate should be judged more equitable and efficient than the present tax system, a host of political and economic considerations make broadening the tax base and simplifying
the rates difficult. Preferential treatment of certain assets has already distorted their value; and sudden, sharp declines in their worth could have negative effects on consumption. Although flat rate tax proposals seem simple, they are not. Income definition, imputed income (i.e., owner-occupied residences), and social security payments are a few possible complications. And while many people support the idea of simplification, it has no organized constituency. Beneficiaries of the present system, on the other hand, are highly organized and vocal. With so many social and economic factors intertwined in the present system, change will not be rapid. But the flat rate tax debate has focused attention on the system, and this in itself may prove beneficial (Bus. Wk., 7-19-82, pp. 130; Wall St. J., 7-8-82, pp. 14; N.Y. Times, 6-27-82, p. E5; 7-10-82, p. 27; U.S. News & World Report, 7-19-82, p. 69).


II. INTERNATIONAL ARRANGEMENTS

ECONOMIC/COMMERCIAL - U.S. TECHNOLOGY BAN AGAINST THE RUSSIAN PIPELINE

The prospect of significantly increased Western European purchases of Soviet natural gas has never been a pleasant one for American presidents. The planned new pipeline from Siberia to Europe has heightened U.S. concern over the potential dependence of Western Europe on Soviet energy supplies. This concern was one motivation behind the Reagan administration's original ban on the supply of U.S. technology by domestic companies for the pipeline and the recent extension of that ban to include foreign licensees of U.S. technology.

The primary reason for the latest ban, however, is U.S. dissatisfaction over the military crackdown in Poland, which the administration views as motivated and controlled by the Soviet Union. The ban also seemed desirable on grounds that it might prevent Russia from using natural gas sales to raise hard currency, which could facilitate the purchase of new armaments. At the recent Versailles economic summit, the U.S. promised to take no further action against the pipeline in exchange for European agreements to increase interest rates on credit to the USSR - another approach to restricting Russia's ability to obtain hard currency. After the summit, however, both France and West Germany indicated they would not change their credit policies. The ban extension was in part a reply to those statements (Wall St. J., 6-28-82, p. 18; N.Y. Times, 7-9-82, pp. 1A).

The economic effects of the ban on Western European countries and companies involved in the pipeline construction could be serious. French industry officials estimate that Europe will lose 20 million labor hours over two years if the pipeline is not built. European companies also stand to lose the substantial investments they have already made in the pipeline, and the Soviet Union may be successful in collecting on heavy default clauses in the contracts. Since the technology ban is not limited to the pipeline, but extends to all U.S.-originated high technology, other projects are affected as well. For example, the French Thomson-CSF corporation has a contract to provide a digital telephone switching exchange, dependent on semiconductor technology licensed from U.S. manufacturers, for Leningrad and for Sofia, Bulgaria. Thomson could lose its entire investment in the project, along with hopes of attracting future clients (Bus. Wk., 7-19-82, pp. 50-68; Wall St. J., 6-28-82, p. 1B).

Nor is the effect of the technology ban limited to Europe. The Japanese have been involved for five years in a joint project with the
USSR to drill for oil in the offshore areas near the Russian Island of Sakhalin on the north of Japan. This project uses technology licensed from U.S. companies, and without the reversal of the ban or an exemption for the project, drilling may be halted for another year. If that happens, Japanese analysts expect the USSR to insist that the project revert to Soviet control. The Japanese five-year investment of approximately $160 million would be lost (J. of Commerce, 6-23-82, pp. 1A+).

Allied reaction to the U.S. ban has been uniformly negative. Faced with high unemployment, the European Economic Community (EEC) is distressed that job creation from the pipeline will be delayed or prevented. EEC reaction has been exacerbated because the ban coincided with a U.S. decision to place countervailing duties on European steel imports to offset subsidies given the European Industry. The EEC sees the ban strictly as a trade restraint, and both Japan and the EEC are considering legal challenges to this, as well as bringing the matter before the General Agreement on Tariffs and Trade (GATT) (J. of Commerce, 6-23-82, pp. 1A+; N.Y. Times, 6-23-82, p. 30; Wall St. J., 6-30-82, p. 21).

Because the EEC views the ban as a dangerous restraint on world trade, it is also considering a number of retaliatory measures against the U.S., such as imposing duties on the $9 billion in annual U.S. farm exports to the Common Market. Another possibility is to take measures offsetting indirect subsidies provided U.S. exporters. One example is the deferral of corporate income tax payments through devices known as domestic international sales corporations (DISCs). The Community has also threatened to withhold its support for the U.S. push to liberalize world trade in services and to remove restrictions on capital flows (Wall St. J., 6-30-82, p. 21; Bus. Wk., 7-19-82, pp. 50+).

The furor over U.S. sanctions against Russia leads to a consideration of the desirability and effectiveness of the sanction as a foreign policy tool. Sanctions have long been thought to have limited usefulness in dealing with the Soviet Union. The prevailing opinion was that East-West trade, particularly that involving Russia, was too limited to make economic leverage an effective device for procuring noneconomic concessions from the Soviets (Survey 29(2):67-70, Spring 1980). However, a new study by the Commerce Department suggests that international trade (including that with the West) plays a larger role in the Soviet economy than previously believed, and that this role is increasing. Prior estimates were that trade represented only 6-10% of the Soviet economy, but the new study indicates the level was about 27% in 1980, and will likely reach 33% this year. The USSR may thus be vulnerable to economic sanctions (N.Y. Times, 7-13-82, pp. 1A+).

Economic sanctions have the potential of achieving three benefits: (1) the offending policy may be changed; (2) the offending nation may be deterred from similar future conduct; and (3) the sanctioning nation may symbolically show leadership or uphold a principle (Donen, 1980).

For a sanction to change policy, certain conditions are necessary: the precipitating event must be quickly resolvable; the sanctioning nation must have sufficient control over the banned product or service to make the effect of its loss significant; and the principal allies of the sanctioning nation must have vital interests protected by the imposition of the sanction (Carwell, 1981/1982). In the case of Poland, the crisis does not seem susceptible to rapid resolution. The military regime was instituted to deal with widespread unrest, and time is needed to work out new arrangements for such issues as the role of independent labor unions and their relation to a new government. Sanctions are unlikely to hasten the resolution. While the U.S. occasionally controls the technology involved in the ban, it may be unable to exercise that control. In opposing the ban, European leaders may instruct their companies to ignore the sanctions, even as the EEC plans to test in court the power of the U.S. to exercise such extraterritorial control (Bus. Wk., 7-19-82, pp. 50+). If licensees are able to use the technology, the sanction will be ineffective.

There is more uncertainty about whether the sanctions, by punishing the Soviets, can prevent future events similar to the Polish. Though some observers at first thought the Russians could replace U.S.
equipment with workable (though less efficient or reliable) Soviet products, French engineers visiting the USSR found that Russian-made turbines intended to replace General Electric products were not compatible with other pipeline equipment (Wall St. J., 6-28-82, p. 18; Bus. Wk., 7-19-82, pp. 50). U.S. policy, if not overridden by the Europeans, could thus seriously hamper present pipeline construction. However, existing ones between the USSR and Europe are operating at only 35-80% capacity. With five new pipelines being built within the Soviet bloc using Soviet technology, alternate methods of delivering natural gas to Europe may be developed. The prospect exists that the Soviets will be able to fulfill their gas delivery contracts through presently existing or soon-to-be-completed facilities (Wall St. J., 6-28-82, p. 18). If this should occur, the Russians would not be "punished," nor would the other, related purposes for imposing the sanction — i.e., preventing European dependence on Russian gas and Soviet accumulation of hard currency — be met.

The sanctions can still serve a symbolic purpose in demonstrating dissatisfaction with events in Poland and showing U.S. leadership in condemning those conditions. Reagan had said in December 1981 that he would extend the sanctions unless restrictions in Poland were eased. Nothing happened; Reagan felt his credibility was at stake; and he carried through with his threat (N.Y. Times, 7-9-82, pp. 1, A14). In fact, if a sanction is to have symbolic effect, the sanctioning nation must be willing to accept adverse consequences, even though the offending policy does not change (Doxey, 1980). That the U.S. is attempting to uphold the principle of Polish self-determination and the freedom of trade unions to voice their political concerns can be a worthwhile stance if the costs of sanctions are not too high.

Costs may, however, be substantial — especially in the spillover effects on U.S. allies. A further, global cost may come from possible EEC retaliatory measures, most of which involve protectionism. The expansion of nontariff barriers since the early 1970s has marked a growing protectionist trend. Should the EEC retaliate, renewed protectionist pressure could lead to an all-out trade war. Even without European countermeasures, the future of trade liberalization now appears grim. Negotiations for the renewal of GATT are scheduled for the fall; if the present atmosphere of tension and conflict is carried over to these negotiations, the entire Agreement could be in jeopardy (Bus. Wk., 7-19-82, pp. 50; N.Y. Times, 6-23-82, p. 30; Page, 1981).

Protectionism and restraint of trade bring about serious economic consequences. Economies stagnate, and inflation can become rampant. In addition, the loss of jobs may be severe, as firms involved in export trade find themselves without business (Page, 1980; Reed, 1980). Even without renewed protectionism, however, U.S. companies face the real possibility of lost business overseas as a result of present sanctions. European companies in competition with U.S. firms are pointing to the technology ban as evidence that American suppliers are unreliable. This tactic has worked to the benefit of European companies in the past, and may do so again (Bus. Wk., 7-19-82, pp. 50; Carswell, 1981/82).

The sanction, then, appears at best a risky tool for the implementation of foreign policy. Benefits are difficult to procure, and the political and economic costs can be massive. Nevertheless, government leaders at times feel an urgent need to counter a perceived threat or injustice on the international scene. The imposition of sanctions may offer the only readily available means to respond with at least the appearance of action. Without other viable options, a government is not prone to engage in rigorous cost-benefit analysis before moving ahead with sanctions (Carswell, 1981/82).


POLITICAL/MILITARY - INTER-AMERICAN RELATIONS AFTER THE FAIRLAKES WAR

As the fourth president in less than two years, Argentine leader General Galtieri knew he had to assess popular support for his government or be replaced. By invading the Falkland/Malvinas islands, he hoped to stir a nationalist spirit within the population that would solidify his power. Galtieri's plan backfired with the British defeat of Argentina, and on July 1 he was replaced by General Reynaldo Bignone. President Reagan has now lifted U.S. economic, but not arms, sanctions against Argentina in hopes of resuming friendly relations with it as well as the rest of Latin America. The question remains whether Argentina's defeat will permanently affect the political organizations and balance of power within the Western Hemisphere.

Most American officials agree that U.S.- Argentine relations hinge on U.S. success in encouraging Britain to negotiate the transfer of the Falklands to Argentina. But U.S. relations with other Latin American countries in the Organization of American States (OAS) may not be as strained. While Latin Americans would have preferred a more neutral U.S. stance in the conflict, only Argentina broke relations with Washington and London (Washington Post, 7/6-82, p. 17; Chas. Sci. Mon., 7/7-82, p. 5; 7/13-82, pp. 11; N.Y. Times, 7/13-82, p. 1). Although the historic role of the OAS has been collective security, the fact that other nations maintained relations with the U.S. suggests the most binding features of the organization are economic, not security, oriented.

The idea of unity among American states began at the Congress of Panama in 1826. Although the Treaty of Union signed there was later ratified by only one country, the premise on which it was based finally developed into the complex system of regional cooperation we know today. The primary role of the unstructured Conference of American States during the 1800s was to promote Inter-American trade; but after two world wars and the Cuban revolution, the focus of the organization had shifted from trade to collective security. At the conclusion of the first world war the organization, then known as the Pan-American Union, agreed upon a process for the peaceful settlement of disputes between American nations. After World War II a special conference convened to strengthen the Inter-American security system. The conference declared that any act of aggression against one American state would be considered aggression against all. The sentiment was codified in the Inter-American Treaty of Reciprocal Assistance (Rio Treaty) in 1947 and embodied in the charter of the OAS in 1948. Thus the Rio Treaty is the cornerstone for the defense of the Western Hemisphere. This cornerstone, and consequently the OAS charter, came under question during the Falklands dispute (OAS General Secretariat, 1972; Schuman, 1981).

While relations among Latin American countries through the OAS are subordinate to each country's bilateral relations with the U.S., the Organization provides an important framework for cooperation in Inter-American development projects, trade, transportation, tourism, and security. Countries benefiting through their involvement in OAS projects are not quick to allocate other members of the Organization, though they are far from displaying solidarity among themselves for both political and economic reasons. In the Falklands conflict, most Latin American countries publicly agreed with Argentina in principle but disapproved of Buenos Aires' tactics, which, if successful, could have set a dangerous precedent in other Latin American territorial disputes, such as Guatemala's claim on Belize, and Venezuela's claim over two-thirds of Guyana. One of the most publicized disputes involves the controversy between Chile and Argentina over three islands in the Beagle Channel at the tip of South America. Fears that the Beagles would be Argentina's next object of aggression if the Falklands takeover succeeded give credibility to BBC reports that Chile and Britain shared military intelligence during the conflict. OAS peacemaking powers and the possibility of Inter-American sanctions have helped defuse or at least postpone actual armed conflicts arising from these disputes, however (Latin America Wkly. Report, 6-25-82, pp. 54; Economist, 4-17-82, pp. 29; 5-1-82, pp. 22).

While permanent damage to relations among OAS members has not surfaced, most analysts agree that the South Atlantic war will have a definite effect on U.S. interests in Latin America. The U.S. decision to
support Britain has affected Latin American perceptions of the efficacy of the Rio Treaty and the OAS charter. Cuba, hoping to capitalize on the situation, proclaims that the U.S. no longer has the right or power to invoke the Rio Treaty against revolutionary movements in Latin America. Although Buenos Aires clearly violated international law by seizing the islands on April 2, Cuba asserts that the Reagan administration’s failure to abide by its regional commitments proves it can no longer be trusted (Chron. Sci. Mon., 7-13-82, p. 11; N.Y. Times, 6-13-82, p. A11; Case Western Reserve J. of Intl. Law 13(1):205-29, Winter 1981; Schuman, 1981). Further, Latin American military leaders now have the Falklands episode to cite as proof of the need to build up arms supplies, though massive military buildup would divert resources away from much needed economic development. Moreover, the military sanctions applied against Argentina will convince many Latin American countries that the U.S. is an unreliable source of arms, prompting them to develop and augment their local industries. Brazil already expects increased weapons sales to other Latin American countries eager to reduce their dependence on U.S. arms (N.Y. Times, 5-23-82, p. 15; 6-18-82, p. A11; Latin America Wkly. Report, 6-4-82, pp. 9+).

Another possible outcome detrimental to U.S. interests is that Argentina’s embarrassing defeat will lead it to acquire nuclear weapons. Argentina has not yet ratified the Treaty for the Prohibition of Nuclear Weapons in Latin America (TREATOLAT Treaty), and Brazil refuses to implement it until all Latin American nations sign. Since the treaty is not in force for these two countries, the U.S. fears a nuclear arms race may develop between them (N.Y. Times, 5-23-82, p. 15; Int’l. Institute for Strategic Studies, 1981; Int’l. Organization 35(1):105-34, Winter, 1981).

Despite possible long-term negative security consequences of the conflict, relations between the U.S. and Latin America do not appear irreparably damaged. This suggests that the U.S. should continue to foster economic ties to the south through OAS development projects. Through this organization the U.S. has an opportunity to promote regional consensus in development and peacekeeping which will enhance
hemispheric stability. With Mexico, Brazil, Venezuela, and Argentina gaining international prominence, many analysts believe U.S. policymakers must realize the advantages of hemispheric ties and understand that through coordinated efforts the Western Hemisphere could become a stable and reasonably self-sufficient region (Gannon, 1982).


III. DOMESTIC ISSUES

RESOURCES - RESTRUCTURING THE TELECOMMUNICATIONS INDUSTRY

Problems confronting efforts to restructure the telecommunications industry and, in particular, the American Telephone & Telegraph Co. (AT&T) illustrate the dependence of regulated monopolies on technological assumptions that can become outdated. Between 1956 and 1980, the telecommunications industry consisted predominantly of AT&T, which held a government protected and regulated monopoly on common carrier communications services but was restricted from entering other technological areas. A protected monopoly of the country’s communications network was considered necessary because the industry’s great economies of scale prohibited an efficient division of the market. By mimicking the effects of competition, regulation was to prevent monopoly abuse. The goals behind the establishment of AT&T as a restricted monopoly were to provide services at reasonable rates and to avoid the possibility that the company might use its guaranteed monopoly revenues to subsidize other, competitive businesses (Hearings, 1982; Smith, 1980).
Although the original goals behind the structure of the telecommunications industry still exist, since the mid-1970s government and private sector officials have become increasingly aware that AT&T's old restrictions and allowances do promote the most efficient use of telecommunications resources or technology. Specifically, the two basic technological assumptions behind the traditional telecommunications structure are outdated. First, technology can no longer be easily categorized. Telecommunications, for example, offers valuable techniques to data processing; AT&T in fact is working on a machine which will allow computers that speak different languages to communicate directly with each other. Rules prohibiting AT&T from entering such fields as data processing would restrict advances in a variety of areas. Second, the original economies of scale which gave rise to the telephone monopoly were based on a now outdated technology. Today, innovations in alternative transmission technologies -- e.g., microwaves, satellites, and coaxial cable -- have removed the need for expensive wires for long-distance communications. Although local communications networks still require monopolistic management, long-distance operations no longer need to be isolated from competitive forces.

Government and industry officials thus must restructure the telecommunications industry -- including AT&T, the largest corporation in the world, with $80 billion in assets -- in a way to keep rates low, to encourage competition when feasible, and to prevent necessary monopolistic activities either from falling financially or from unfairly subsidizing side operations (Hearings, 1982; Government Accounting Office, 1981; Willy & Nausacht, 1982).

Initiatives to reorganize AT&T have resulted in political, economic, and social problems and concerns. Politically, the activities of the company touch the jurisdiction of a number of governmental bodies, including the Federal Communications Commission (FCC), the antitrust division of the Justice Department, and Congress. Each of those bodies has its own priorities and has tried, independently and sometimes in conflict with the others, to exert influence on the evolving structure of AT&T. In its recent Computer II decision, the FCC ruled that AT&T could enter the unregulated data processing and computer areas if it put those new operations into a financially independent subsidiary to prevent cross-subsidization with AT&T's other activities. In June 1982 AT&T incorporated this new subsidiary, called American Bell (White, 1982; N.Y. Times, 6-27-81, pp. F14). Subsequent to this decision, the Justice Department in January 1982 reached agreement with AT&T on a settlement of its 1974 antitrust suit. This settlement -- which is not final until approved by the court, probably later this year -- calls for AT&T to divest 22 of its local operating firms, such as Southern Bell, which in the future are to give all long-distance carriers equal access to local communications networks. While the purpose of divestiture is to prevent anticompetitive cross-subsidization between unregulated and regulated monopolistic activities, the terms of the agreement allow AT&T to keep its regulated long-distance operations intact on the theory that the field is now competitive. Other terms of the agreement include retention by AT&T of its $2 billion yellow-pages business and the lifting of all Justice Department restrictions on the range of AT&T's possible operations (Newsweek, 1-18-82, pp. 58; N.Y. Times, 5-29-82, p. A18; Congressional Quarterly Weekly Report, 3-27-82, p. 688).

While some form of divestiture appears inevitable, the Justice Department's agreement with AT&T has been criticized by members of Congress and the FCC as well as a host of state utility regulators, state attorneys general, and legal authorities (N.Y. Times, 4-5-82, pp. A1). Some members of Congress were incredulous at the apparent independence of the Justice Department in formulating the agreement without contacting Congress, the FCC, or any other executive department (Hearings, 1982). This form Congress tried to pass legislation which would change the provisions of the agreement, but the House sponsor, Representative Timothy Wirth (Colo.), finally abandoned his effort because of the dilatory tactics of AT&T supporters and because so little time remained before the end of the session (Atlanta Const., 7-21-82, pp. C1-4). Among other provisions, Wirth's bill would have required AT&T to put its long-distance operations in a separate subsidiary as a further guard against cross-subsidization. AT&T argued that growing competition makes separation of long-distance operations unnecessary. In fiscal year 1981,
AT&T's leading competitor in long-distance communications, MCI Corp., doubled its revenue and acquired Western Union International, one of the nation's leading international data transmission companies (Wash. Post, 7-21-82, pp. D14).

The FCC's major objection to the agreement concerns the financial health of the local operating companies. In the past, the local firms required 80% of AT&T's capital investment but produced only 20% of its earnings (Atlanta Const., 7-21-82, pp. D1+. The FCC has proposed to other responsible government bodies that the divested firms eventually be allowed to engage in some unregulated business, such as the production of yellow pages, to supplement their capital base. If permission is not granted by others, the FCC will probably do it itself (N.Y. Times, 4-21-82, pp. D14; 4-5-82, pp. A1; Wall St. J., 4-21-82, p. B8).

Besides the political conflicts surrounding the restructuring of AT&T, opponents of the agreement fear that if divestment is implemented local phone rates will jump 100% to 200% in the next few years. Currently, long-distance revenue subsidizes local rates, many of which are below cost. If local operations become separated from this extra revenue, rates could rise or the quality of services decline. Supporters of the agreement, however, argue that the rates will not rise for at least three reasons: local firms left alone will be more efficient and cut costs; local firms will still be regulated by state public utility commissions; and long-distance carriers will have to pay local networks an access fee which will replace subsidization (Hearings, 1982; Newsweek, 1-18-82, pp. 58+).

Another economic implication of the antitrust agreement is the effect it may have on Bell Laboratories, the research arm of AT&T. Bell Labs, considered one of the leading industrial research institutes in the world, has made such major contributions to American technology as the transistor. It is especially noted for its basic research activities, which in the past thrived in an atmosphere independent from the usual industrial pressure toward product development. Bell Labs' budget in 1982 for basic research was $275 million, $100 million of which came from the local operating firms. If the agreed divestment is enacted, this portion of Bell Labs' budget may be reduced. In addition, with the agreement's elimination of traditional restrictions on AT&T operations, Bell Labs will have a greater opportunity to contribute to company profit through product development. With increased competition, AT&T may have to de-emphasize the role of basic research in Bell Labs (Bus. Wr., 7-5-82, pp. 46+).

The social implications of divestment of the 22 local operating firms is still largely unknown, but concern is growing over the plan's effects on company employment. AT&T encourages close, almost Japanese-style relations between labor and management. In addition, managers within the Bell system are assured of steady advancement, moving from post to post between local firms and corporate offices. Many AT&T employees are worried that divestment will mean the end of the corporate family. For example, the local operating companies, which account for three-quarters of AT&T's one million employees, may be forced to lay off loyal workers in order to cut costs; also, new expertise may come from outside AT&T ranks and therefore undermine the close relations among AT&T's long-term employees (Wall St. J., 1-26-82, pp. 1+). Also, some observers fear that once local firms are separated from the conglomerate parent, they may drop the affirmative action programs which AT&T has been following voluntarily since 1979 (Bus. Wr., 4-8-82, pp. 63+).

Although the future structure of the telecommunications industry is uncertain, clearly it will reflect the changed state of technology. Competition will be encouraged among long-distance carriers, and AT&T will be permitted to trim its corporate muscle in new technological areas. In the immediate future, local communications will remain the last government-protected monopoly in the industry, for the economics of scale in operating a house-to-house wired communications network are still too great to support competition. Within the next decade, however, even this monopoly may end as new technologies make wires obsolete. Already the telecommunications industry is perfecting techniques which bypass the need for wires and require only AT&T's local switching systems. The FCC has even gone ahead and awarded licenses for
wavelengths needed to operate new "cellular" mobile phones. Moreover, political and economic controversies concerning direct satellite transmissions and the use of coaxial cables may be resolved in such a way as to make them available for local communications in addition to the traditional Bell system wired phones (N.Y. Times, 3-29-82, p. A18; Wiley & Neustadt, 1982; Economist, 7-3-82, p. 26).


IV. NORTH AMERICA

CANADIAN-LATIN AMERICAN BILATERAL RELATIONS - Canada is currently reevaluating and modifying its major foreign policies and institutions dealing with Latin America in an effort to improve relations with key countries in that region. Already the Canadian cabinet has implemented certain structural changes designed to promote international trade in general. The Department of Industry, Trade, and Commerce has been abolished so that its trading function can be more intimately connected with the political concerns of the Department of External Affairs. External Affairs, in turn, has been restructured to focus primarily on the trade and economic dimensions of Canada's foreign policy. Another institutional change is the establishment of the Export Development Board to advise the government on all export-related matters. The board, comprised of officials from the private and public sectors, has so far filed reports on such diverse topics as western Canadian coal capacity and export award programs (De Bane, 1982).

The institutional changes made so far, however, are probably just the beginning of a new emphasis on Latin American relations in Canada's foreign policy. In past months, parliamentary studies have been exploring a wide range of options and opportunities that exist for Canada in Latin America. The most important study is being conducted by the House of Commons Subcommittee on Relations with Latin America and the Caribbean, charged with making the first complete examination of Canada's links with Latin America. Observers predict that the final report of this subcommittee, expected later this year, will be a significant determinant of Canada's foreign policy in the next decade (Bus. Latin America, 4-21-82, pp. 122). Canada's existing policy toward Latin America can be divided into three main areas: trade, aid, and human rights. Trade clearly is Canada's top priority (Murray, 1981). Canada has always had a primary producing economy supported largely by bilateral trade. In 1981, for instance, 31% of Canada's GDP came from exports. Faced with rising unemployment and the current economic slowdown plaguing all Western nations, Canada must find new markets for its exports and expand its domestic manufacturing sector, which has traditionally served only a small home market. Under these conditions, Canada has found excellent trading partners in Latin American countries which have experienced years of strong economic growth. Canada hopes to contribute to the industrialization of these countries by exporting needed technology and products in its strongest areas: electric power generation, telecommunications, transportation, and nuclear power generation (Bus. Oryl., Spring 1981, pp. 47; De Bane, 1982).

Canada's relations with Mexico have been called the "mainstay" of its foreign policy in Latin America (Int'l. Canada, 6-81, pp. 121+). Trade with Mexico, valued at $1.7 billion a year, is expected to continue growing (Canada Oryl., 7-3-82, pp. 14). The success of Canadian-Mexican relations comes from the particular economic strengths of each
country and from Mexico's desire not to increase its economic dependence on the U.S. The fourth largest oil producer, Mexico provides Canada with 10% of its imported oil; Canada, for its part, can supply Mexico secondary products which lack American but are not. Recently, leaders from the two countries discussed increasing the number of joint ventures in transportation, mining, and construction. Current relations, in fact, are so close that the Royal Canadian Mint is producing pesos to help inadequately Mexican printing facilities (McClean's, 1-25-82, pp. 34; Canada Why?, 2-3-82, pp. 1; Int'l Canada, 6-81, pp. 121+).

Other countries with which Canada is trying to improve relations include Brazil and Venezuela. In 1981, Canada and Brazil enjoyed $1.2 billion in bilateral trade and discussed the possibility of entering into joint ventures in forestry, mining, satellite communications, and hydroelectric development (Canada Why?, 4-14-82, pp. 4+). While Canada's trade with Venezuela has consisted mostly of oil imports, Canada hopes that country's growing oil revenues will provide markets for such Canadian products as oil sand technology (Canada Why?, 2-10-82, pp. 24; Int'rel Report, 1981; MacGillen, 1980). Canada has no definite plans to increase trade with the more right-wing military governments of Chile, Paraguay, and Uruguay at this time (Int'l Canada, 6-81, pp. 121+).

Canada's foreign policy regarding aid has also received high priority, although the Department of External Affairs has openly declared that one major purpose for giving aid is to develop new markets for Canadian exports. Canada now gives Latin America $1.5 billion a year in aid, 20% of which goes to medium-income countries to encourage industrial cooperation (De Bane, 1982). A recent survey shows that development assistance has wide support in Canada; so aid donations will probably continue. According to the poll, a great majority of Canadians favor giving aid because they see it as either a humanitarian act or a duty of countries as rich as Canada (Canadian Int'l Development Agency, 1980).

The third priority in Canada's relations with Latin America is the human rights issue. While abuses in human rights have incensed many Canadians, the government may be trying to de-emphasize the issue to enhance commercial opportunities (Murray, 1981). Although External Affairs lists reducing human rights violations as a priority of foreign policy, it also insists that public condemnations are ineffective in pressuring countries to respect their citizens. The more precise position of the Canadian government is that the best response to rights violations is the application of economic pressure, which cannot be done unless Canada is a valued trading partner (Murray, 1981; MacGillen, 1980).

How the Canadian government will respond to recommendations coming out of studies now underway cannot be predicted. Suggestions designed to promote trade, however, will be seriously considered by Canadian officials. In its Interim Report (1981), the Subcommittee on Relations with Latin America and the Caribbean criticized Canadian businesses for not being aggressive enough in cultivating Latin American export markets. The same criticism has also been leveled at the Canadian government itself. According to one observer, most members of government missions to Latin America treat the assignment as a temporary position or stepping stone to the more coveted posts in London or Paris. Because of the high turnover rate in Latin America, potential markets and contacts are not developed. "You do not establish relations in Latin America by sitting down there, saying hello and coming home again" (Hearings, 1981). One possible solution to the problem suggested by a recently terminated House of Commons special committee is that Canada establish a trading corporation to develop the necessary expertise to help Canadian businesses find new markets in such regions as Latin America (CA Magazine, 9-81, pp. 294).

Recommendations from other sources suggest that Canada de-emphasize trade as the focal point of Latin American relations. A report by the Council on Hemispheric Relations sharply criticized Canada for following a foreign policy that ignored the threat of right-wing authoritarian nations and that lacked moral content (Globe & Mail, 3-30-82, p. 11). In its Interim Report the subcommittee on Latin American relations stressed the importance of dealing with human rights violations and
development assistance independently of commercial policy. It recommended, for example, giving aid to the poorest people in the poorest countries instead of earmarking a large portion of development funds as a device to promote future markets. Specifically, the report advocated giving countries like Nicaragua a substantial increase in food aid so that it might develop in an environment of support instead of polarization (Interim Report, 1981; Murray, 1981). For the near future, however, the Canadian government is likely to remain receptive to recommendations for improving trade between Canada and Latin America but to resist suggestions that would shift the focus of its policy away from trade.


Hearings. Subcommittee on Canada's Relations with Latin America and the Caribbean, Committee on External Affairs and National Defense, Canadian House of Commons, June 16, 1981.


Y. EDITORIAL

GOVERNANCE - The resignation of Alexander Haig and nomination of George Shultz highlight the complications inherent in an administration composed of people with different personalities and opinions and operating under democratic principles. Other complexities in our governing structure are reflected both in Congress' decision to override the Defense Department recommendation that Lockheed, rather than Boeing, transport aircraft be purchased, and in the congressional veto of the Federal Trade Commission rule applying to used car sales. Comparable conflicts among elements of Congress itself are illustrated by the difficulty in establishing meaningful budget guidelines within the framework of procedures and time schedules mandated by law. While this last conflict stems in part from party differences, the three-year delay in passage of the Export Trading Company bill makes clear that jurisdictional interests of individuals and congressional committees are also a major source of dissention and delay. Unfortunately, at a time when the nation's economy seems paralyzed, an escalation of such conflict can tear at the very fabric of the democracy which allows conflict to exist. Thus we must actively seek to understand its origins as well as procedural and structural changes which can reduce its harmful effects.

The conflict illustrated by these events does not arise solely from differences in values. Increasingly, it results from excessive information, a dearth of guiding principles for screening and ordering data, and decision making structures that reflect dated understandings about people, politics, and ideas.

The rapid growth of microcomputers and inexpensive electronic memory is supporting an explosion in the information industry. Data on any issue can be readily and cheaply collected to advocate nearly any interest, and increased leisure time has encouraged the proliferation of organized interest groups and an infinite array of perspectives. Theoretically, Congress, with all its resources, can cope with the plethora of data and perspectives by employing the same technology and contemporary understandings about decision making in a complex environment; but this has not occurred. The constitutional checks and balances of the separation of powers among government branches have been unwittingly augmented by a separation of powers within branches. This is not a tenet of our constitution, and it is rapidly destroying our ability and will to compete effectively in a turbulent world environment marked by a welter of national, political, military, and social interests.
No easy solutions to the dilemmas of information overload and fragmented power are available, but progress must be made on some long- and short-term goals to keep them from worsening. Congress, and the Republic in general, must develop effective techniques for compressing and ordering the ever-increasing amounts of data now available to all citizens. Decision techniques shaped in such complex organizations as the Defense Department and General Electric must be applied to the congressional setting. Democratic decision making techniques practiced in Congress should be adapted to the executive branch on issues involving core responsibilities of three or more agencies. Both types of techniques should be cycled into universities to aid in directing the future research and existing instruction of tomorrow's citizens. Paralleling these activities, the nation must focus on the need for constitutional revision to modify the separation-of-powers concept. The roles and abilities of each branch evident from historical studies must be appraised against current and future needs. Such studies will probably show that some matters are best discharged by a single branch, with congressional and presidential elections being the ultimate restraint on government excess.

Apart from increased attention on using effective techniques and structures for decision making, the government and its people must better appreciate the relationships between fiscal policy, monetary policy, international arrangements, and domestic affairs. All these matters, however, cannot be dealt with at once. Consensus is developing worldwide that the effect of fiscal policy is pervasive; uncertainty about it creates unacceptable instability in both international and domestic affairs and makes achievement of monetary goals illusive. Admittedly, governments cannot defer many activities relating to monetary policy and domestic and international affairs, but prudence suggests that programs aimed at long-term progress on these matters await a reasonable national consensus on an acceptable range of fiscal policies.

------Fredrick W. Huszagh