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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

MONETARY - INDEPENDENCE OF THE FEDERAL RESERVE

"This isn't an 'easy money' bill," says Sen. Robert C. Byrd (D-W.Va.) of his proposed legislation that would direct the Federal Reserve Board to focus on meeting annual targets for interest rates. The purpose of the bill is to reduce interest rates to their historic levels of one to four percentage points above the inflation rate. Over 60 House and 30 Senate Democrats concur with Byrd. They feel the Fed's policy of attempting to control the money supply while ignoring interest rates is a factor responsible for the current recession. This conflict between the Fed and Congress is rekindling debate over whether the Federal Reserve Board is, or should be, independent of the political process (Wall St. J., 8-4-82, p.3; 8-15-82, p.3).

In October 1979, the Board of Governors of the Federal Reserve System abandoned monetary policies aimed at maintaining stable interest rates and adopted an approach focusing on money and credit aggregates as policy targets. The approach, most closely associated with the ideas of Milton Friedman, was designed to provide stable, predictable growth in the money supply and thus assure inflationary expectations. Recent low rates of inflation have been attributed largely to this approach, though they should perhaps more accurately be ascribed to monetary growth rate themselves. Since 1979, however, interest rates have been high and extremely volatile, and the price of the new policy is reflected in current high unemployment rates. Fed policies are also perceived to be frustrating the administration's supply-side programs, and Chairman Volcker has come under strong administration pressure to permit faster growth of the money supply in order to reduce interest rates and stimulate the economy prior to this year's elections (U.S. News, 8-2-82, p.16). Although Volcker hinted before the Senate Banking Committee on July 20 that he would alter the Fed's approach, his overall of the Fed's independence expressed it: "The president is elected by all the
people, and he has a right to put his policies into being and to be held accountable for them" (Economist, 6-26-82, pp. 134; Bus. Wk., 8-2-82, pp. 16+).

As a result of feeling helpless to control the economy, Congress and the administration are circulating various proposals to change the Fed's independent status, such as:

1. giving the treasury secretary a seat on the Board of Governors,
2. making the term of the chair of the Board of Governors coterminous with that of the president,
3. having Congress define the monetary policies to be implemented by the Fed.

The first two proposals would increase the power of the executive branch over economic policy. The third proposal of having the legislative branch set money supply and interest rate targets would be unlikely to function effectively, especially if Congress involved itself with details of policy implementation. The required specificity would introduce inevitable problems in garnering support and avoiding economically undesirable compromises for the sake of political expediency (Economist, 6-26-82, pp. 134; Kane, 1980).

The Fed's independence is indeed something of an anomaly in a country where public policy is typically determined through the representational process. Such independence creates a tension between responsibility and authority. The Congress and the president, as elected officials, are ultimately responsible for implementing the economic policies dictated through the electoral process, but the Fed's independence serves to reduce the ability of elected representatives to fulfill their responsibilities.

The Fed's independence derives from the Federal Reserve Act of 1913, which set up the reserve system. Independence was bolstered in the Act by providing a long term of office for members of the Board of Governors, by their immunity from removal for political reasons, and by the Board's financial independence from Congress. Congress has also contributed to Federal Reserve Independence. Although the Fed's authority and operating procedures are subject to congressional control under the 1913 Act, Congress has historically preferred to insulate the Fed from political pressures, both because of the dangers of placing monetary authority in the political realm and because of the advantages of having an independent scapegoat, should the economy go awry (Meisel, 1973; Clifford, 1965).

In reality the Federal Reserve is not completely independent of the political process. The necessity of contact between the Fed and the Treasury in implementing daily transactions and the regular meetings of the Fed, the banking committees of Congress, and the Treasury ensures that political pressure is brought to bear indirectly on monetary policymakers. Some even assert that the Fed has adopted operating procedures and handled its public and congressional relations in a manner which allows it to respond to political pressure without the embarrassment of appearing to do so (Kane, 1980). These control mechanisms are deficient, however, in that they are informal and nonbinding. The degree of political responsiveness becomes a function of the personalities involved (Meisel, 1973).

In the past the president has asserted more influence over the Fed than has Congress, but in 1978 Congress enacted the Balanced Growth Act to improve congressional oversight of monetary policy. Recognizing the importance of coordinating monetary and fiscal policies, the bill provided a procedure for reviewing monetary policy by requiring the Federal Reserve to submit reports on its policies for the current year and on the relation of those policies to the economic goals expressed by the president in his annual economic report to Congress. The committee receiving the report must then present its views and recommendations regarding the Fed's announced policy goals to each house. Congress could, if it chose, influence Fed policies through this process (Roberts, 1970).
II. INTERNATIONAL ARRANGEMENTS

ECONOMIC/COMMERCIAL - TURBULENCE IN THE AIRLINE INDUSTRY

After years of profitable operations, the U.S. airline industry, including manufacturers, has finally encountered turbulence. High interest rates, fuel costs, and price wars from deregulation have forced airlines to cut expenditures. While consumers saved $3.3 billion on fares in 1981 because of deregulation, major carriers sustained a net loss of $150 million (Aviation Week & Space Tech., 8-16-82, p. 344). In two years they have laid off nearly 30,000 employees and significantly reduced the number of new orders for airplanes. The reduction in domestic orders, compounded by competition from foreign aircraft makers, is adversely affecting U.S. aircraft manufacturers and thus a significant part of the U.S. economy. As a result, Congress has introduced measures to tighten Federal Aviation Agency (FAA) certification requirements for foreign-made aircraft and to curtail the use of FAA loan guarantees for the purchase of imported aircraft (J. of Commerce, 8-2-82, p. 2A).

Undoubtedly, the futures of both the manufacturers and carriers are intertwined. Mismanagement decisions by carriers concerning desired types of aircraft directly impact manufacturers' decisions about what type of plane to build. Buying and building airplanes is increasingly risky considering the complex technology and huge sums of money involved; therefore, farsighted management decisions in this critical area can determine a company's success, especially in a deregulated environment. One recent management error illustrates this point. After deregulation, many airlines decided independently to expand and bought new aircraft for new routes. The decision might have been a sound one, but it been made by one or a few airlines; however, failure to recognize the probability and consequences of many companies following the same strategy resulted in overcapacity, loss of profits, and, in one case, bankruptcy (Aviation Week & Space Tech., 8-16-82, pp. 344).

A far more serious management mistake occurs when airlines fall behind in technological improvements, as Eastern did in the late 1970s.
by hesitating to switch from propelled to jet engine aircraft. Eastern then had to wait behind other airlines for the newer, more efficient aircraft, considerably reducing the company's profitability (Atlanta J. & Const., 8-22-82, p. 18). Although the 107 members of the International Air Transport Association lost a total of $1.8 billion in 1980, the airlines have to buy new carriers soon to remain competitive. Old aircraft must be replaced with fuel-efficient, quieter airplanes. According to the Airline Transport Association, U.S. carriers alone will need $100 billion in new equipment by 1990, with the world market being well over $132 billion (Euromoney, 10-81, pp. 289+). This mood would seem a boon for U.S. aircraft manufacturers, but Boeing chairman T. A. Wilson is afraid that 75% of the world share will be for non-U.S. aircraft, particularly Airbus Industrie models. Already Boeing’s share of new orders for wide-body aircraft has declined from 54% in 1978 to 36% last year; over the same period, Airbus’ share rose from 25% to 55% (Euromoney, 10-81, pp. 289; Economist, 7-17-82, pp. 65+).

Boeing's biggest competitor is the European consortium Airbus Industrie, jointly owned by Britain (20%), France (38%), Germany (38%), and Spain (4%). Much of Airbus' success stems from perfect timing. In the mid-1970s fuel costs and increased competition created a demand for a more fuel-efficient, twin-engine, wide-bodied airplane with large seating capacity. Airbus had such a plane in the A-500. At the same time, international politics was damaging sales of U.S. planes abroad. The federal government was refusing to grant export licenses for Boeing aircraft to countries such as Libya, Iraq, and Syria, which the U.S. believed were exporting terrorism. This restriction undercut American manufacturers in the Middle East (Newhouse, 1982).

Currently Airbus Industrie has 45% of the world’s backlog of orders for wide-body aircraft (J. of Commerce, 8-3-82, p. 239). Many of the orders are from growing markets in the Middle East, Asia, Africa, and Latin America. Kuwait recently ordered 11 of Airbus' 200-seat A310 models. Saudi Arabia followed suit with 11, and Lebanon ordered 5 with options for 14 more. Boeing is afraid that Airbus’ initial success in those regions will put it at a disadvantage. Most countries in developing areas prefer common aircraft in order to share spare parts and maintenance. If a few countries purchase Airbus models, others may buy Airbus out of necessity (Newhouse, 1982).

Much of the current competition between Airbus and Boeing will depend on whether carriers can finance the purchase of new planes. Domestically, U.S. airlines finance new aircraft from earnings, depreciation allowances, issuance of securities, loans by commercial lenders, leasing, and, for foreign made aircraft, FHA loan guarantees. In order to avoid huge down payments, many airlines prefer to lease aircraft from banks or other financial institutions, which purchase them for investment purposes (Eyer, 1979; J. of Commerce, 8-23-82, p. 2A).

The most critical factor affecting aircraft sales in the international market is export subsidies. Airbus sales have undoubtedly been assisted by export credits provided by the European governments to purchasers of Airbus aircraft (Aerospace, Spring 1981, pp. 81). Last September the U.S. reached agreement with the four European governments for a one-year reduction of subsidies, with a 12% minimum interest rate and a 10-year maximum term on government loans. What will happen with credit terms when the agreement terminates on September 30 is unknown.

Foreign sales comprise a large portion of a manufacturer's earnings, making export credits and government guarantees a critical factor in sales. Boeing makes about 60% of its sales to foreign airlines, with the U.S. Export-Import Bank providing much of the necessary financing (Euromoney, 10-81, pp. 289; Economist, 7-17-82, pp. 63+). Total authorizations for Eximbank's programs supporting export sales have exceeded $12 billion annually over the last three years. Eximbank funding is divided into three separate programs: direct credit, financial guarantees, and export credit insurance. Long-term financing necessary for aircraft is provided through direct credits extended to foreign purchasers of U.S. exports. Usually, direct government credits of up to 65% are issued jointly with credits from private lenders, and Eximbank's financial guarantee program provides repayment assurance to the private lenders (Export-Import Bank Fiscal 1980 Annual Report). The Reagan
administration is currently trying to cut back America's ExIm Bank loan guarantees from $4.4 billion to $3.0 billion in 1983. With 40% of ExIm Bank's direct credits going to Boeing customers, the company feels cutbacks would give Airbus a substantial trade advantage (Economist, 7-17-82, p. 63+).

Boeing argues that it must have credits to stay competitive in the world market. For example, Boeing's foreign customers alone required over $3 billion of ExIm Bank's total funding in 1980. If the administration succeeds in reducing the bank's lending authority, Boeing's share of the funds will be reduced proportionately, with the result that its sales will decrease as foreign airlines turn to other manufacturers whose governments subsidize exports. Hoping to thwart that outcome, Boeing has repeatedly stressed to Congress the positive impact of exports on the nation's balance of payments and unemployment rate, noting that over the past 10 years the commercial aircraft industry has contributed more than $35 billion to a positive U.S. trade balance and provided an average of 500,000 jobs annually. Each $1 billion the aircraft manufacturers lose in exports costs the U.S. economy 40,000 jobs. Boeing also emphasizes that as it loses contracts and has to lay off employees, the nation will suffer by losing people with high-technology skills necessary in case of a national emergency (Hearings, 1980; Aerospace, Spring 1981, pp. 86).

The market is now calling for a new fuel-efficient, single-aisle, twin-engine commercial aircraft with a seating capacity of 120-150. Estimated replacement value is $72 billion. Although no airlines have placed orders, Eastern, United, and Delta, among others, have expressed an interest in such a plane. Again, the two most likely competitors are Airbus and Boeing, with Japan possibly trying to capture a share of the market through a joint venture with one of them (Aerospace, Spring 1981, pp. 86). Most experts believe, however, that only Airbus -- backed by European governments which have regularly provided it with funding for development and production of civil aircraft -- has the resources to construct the aircraft within the next six years. Canada's expressed desire to join the Europeans in building the new A-320 by manufacturing parts in Canada further enhances Airbus' chances (N.Y. Times, 7-23-82, p. 37). A variety of investment factors could inhibit Boeing from producing the plane soon enough to capture a profitable share of the market, and antitrust laws prevent Boeing and McDonnell Douglas from jointly building the new aircraft. Boeing's only option may be to team up with the Japanese, though the company is wary of that course because of the Japanese propensity to learn an industry well and then make it profitable on their own (Newhouse, 1982).

Boeing Company illustrates the impact of the aircraft industry on the nation's economy in terms of employment and balance of trade. But the U.S. position in aircraft manufacturing is declining with Airbus' recent emergence as a viable competitor. Airbus officials claim that Boeing's fears of losing its hold on the industry are unfounded, considering that the U.S. has the biggest market and the consortium has so far sold aircraft to only one U.S. airline (Eastern). In any case, paraels over sales is likely to heighten competition for markets and pressure for protective legislation for some years ahead (Economist, 7-17-82, pp. 65+).


III. DOMESTIC ISSUES

HUMAN DYNAMICS -- "NEW FEDERALISM" AND THE JUVENILE JUSTICE SYSTEM

One of the targets of President Reagan's "new federalism" -- which calls for giving more power to states in determining fiscal and social priorities -- is the juvenile justice system. Although Reagan tried to eliminate funding in the 1982 budget for federal intervention in local
juvenile justice programs, Congress appropriated $70 million to continue implementation of federal policies. In January, Reagan again proposed abolishing federal influence in state programs and has since applied steady pressure on Congress to that end. Because federal intervention in the juvenile justice field is a relatively new phenomenon, Reagan may succeed in returning control to the states; indeed, solving the problems of delinquent youths has traditionally been regarded as a community or state matter (Hearing, 1982).

The federal government intervenes in state juvenile programs through the Office of Juvenile Justice and Delinquency Prevention (OJJDP), an agency of the Justice Department that gained independent status in 1980. The Office provides states with block and special-emphasis grants to be used in reaching two of its primary objectives—improving juvenile rehabilitation programs and protecting juveniles from the debilitating effects of adult prisons and other statewide institutions. Programs for treatment at the community level are strongly encouraged. Providing states with funds is, however, not the OJJDP's sole means of intervention. It also requires states seeking federal funds to meet certain minimal standards in their treatment of juveniles (Hearing, 1981).

A major premise behind the new federalism is that states are capable of tackling local problems without aid or direction from the federal government. However, federalism should not imply the isolation of states from federal aid in handling all problems, including serious social ones; for cooperation and coordination between federal and state levels has been an underlying principle of the constitutional federal system from its inception. While cases of excessive paternalism by the federal government have occurred, a contingent in Congress believes juvenile justice is an area that would benefit from continued leadership by a federal agency.

Opponents of abolishment of the OJJDP point out that juvenile crime is so prevalent it has taken on a national dimension. Recent studies show that juveniles account for 25% of all personal victimizations. Specifically, juveniles commit 9% of the nation's homicides, 34% of its robberies, and 8% of its rapes (Justice Assistance News, 4-82, pp. 124; Corrections Today, 6-82, pp. 264). Federal Court of Appeals Judge Irving Kaufman argues that the problem is so serious, the present "crazy quilt of uncoordinated institutions" should be unified by even greater federal intervention (N.Y. Times, 3-28-82, p. 45).

The Justice Department, however, insists that the magnitude of juvenile crime is not in itself sufficient justification for federal intervention. Justice argues both that states can react more effectively to juvenile delinquency within their borders and that the OJJDP has already essentially accomplished congressional goals—i.e., the momentum generated for program improvements no longer requires federal support (Hearing, 1981).

In determining the need for federal leadership in the juvenile justice system, the practices and effectiveness of state systems and the economic dimension of the problem should be examined. Juvenile justice programs must deal with several distinct types of offenders: nonoffenders, status offenders, nongnorious offenders, and serious offenders. Nonoffenders are juveniles, often neglected or abused, who come under state care through no fault of their own. Status offenders are subject to the jurisdiction of the courts because of their "status" as children; that is, they have committed acts, such as truancy, which are not considered offenses against society when engaged in by adults. Nongnorious offenders have committed misdemeanor-type offenses. Serious offenders are those that have committed felonious acts.

How juveniles are categorized and treated varies from state to state: Nongnorious offenders may be considered as status offenders, for example, or as serious offenders. Clearly, however, the range of juveniles handled by state systems presents different social problems requiring different solutions. The Office of Juvenile Justice and Delinquency Prevention was originally created in reaction to the widespread practice of handling all juvenile offenders equally (Hearing, 1981).
The greatest improvement in juvenile justice since the inception of federal involvement is in the treatment of status and nonoffenders. The 1974 Juvenile Justice and Delinquency Prevention Act required status seeking federal funds to remove status and nonoffender juveniles from adult jails and juvenile security "training schools." Many states complied with these conditions and initiated deinstitutionalization and diversion programs. Examples include halfway houses, work for such community agencies as nursing homes, "shock treatment" visits to adult jails, and camping trips to expose inner-city youths to the rigors of the outdoors (U.S. News & World Report, 11-10-80, p. 64; Corrections Magazine, 6-82, pp. 39f). These programs have helped thousands of youths avoid incarceration and develop the Incentives and skills needed to become responsible adults.

Despite these improvements, treatment of status and nonoffenders remains unchanged or only partially changed in a few states, either because they have elected not to receive federal funds or because compliance with federal requirements is incomplete. In particular, the placement of status and nonoffenders in "training schools" continues in some states. While this is an apparent improvement over housing these juveniles in adult prisons, recent studies show that, as in adult prisons, sexual assaults and other degradations are commonplace (Bartolias & Stoverds, 1981).

In some instances the federally funded programs may be administered unfairly. Studies have identified cases in which young people who otherwise would have been left alone were arrested in order to keep a status-offender program going and the staff employed (Hearing, 1981). The opposite should probably be occurring. Social scientists have found no evidence indicating that the status offender's petty antisocial activity leads to more serious criminal activity (Rajek & Erickson, 1981). Program funds would be better spent in dealing with nonserious and serious offenders.

While certain controversies remain regarding the handling of status and nonserious offenders, substantial agreement exists among all parties that deinstitutionalization is a goal worthy of being pursued. Agreement over goals in dealing with serious juvenile offenders is another matter. The approach consonant with traditional common law and supported by the policies of the OJJDP flows from two basic premises. First is the idea that criminal liability depends on "culpability" -- that is, a person's rationality and responsibility in making decisions. The defense of infancy (granted all children below age seven and generally presumed applicable until age fourteen) is premised on the absence of this capacity in a young child. Second is the assumption that a minor is more likely to be rehabilitated than an adult.

Recently, however, states seem to be shifting away from these traditional values toward practicing punitive incapacitation (Field, 1981). Proponents of welfare protective status argue that some people even at an early age are incapable of rehabilitation and that some are too dangerous to be housed in any place other than an adult jail. This view has been given credence at times when violent juveniles are treated too leniently by juvenile court and have been able to murder or rape again soon after apprehension (N.Y. Times, 8-1-82, p. E6). New Jersey is the latest in a series of states to revamp its juvenile code to make it easier for a juvenile accused of a violent crime to be treated as an adult. Even a minor of 13 can be tried as an adult (N.Y. Times, 7-24-82, p. 1). In Vermont a juvenile 10 years old can be treated as an adult in criminal court (U.S. News & World Report, 2-1-82, p. 6).

For its part, the OJJDP has begun experimental programs nationwide to treat and rehabilitate violent juvenile offenders (Justice Assistance News, 11-81, p. 4). The effectiveness of these programs cannot be judged for some years, but advocates insist it offer the best available opportunity for finding solutions to violent juvenile behavior. What is presently known is that the greatest single predictor of later serious delinquency is earlier incarceration without individual rehabilitative treatment (Corrections Magazine, 12-81, pp. 22). In today's overcrowded and understaffed adult facilities, it is impossible for juveniles to obtain needed counseling and direction (N.Y. Times, 7-24-82, p. 1).
The question remains whether the efforts of the OJDP are ultimately beneficial to the society from an economic standpoint. With respect to deinstitutionalization, the answer is "yes." Incarcerating juveniles entails twice the cost of supervising them within a community. The real economic benefits, however, lie in reducing the loss from delinquency and crime. Juvenile delinquency costs the U.S. approximately $10 billion annually (Corrections Today, 6-82, pp. 26; U.S. News & World Report, 11-10-82, p. 64). More serious juvenile offenders who are not redirected will likely contribute to that figure in the future; as adults, they will contribute to adult crime or burden the state with the cost of years of incarceration. Thus, the economic benefits to be gained from enhancing opportunities for juvenile offenders to move away from criminal activity are great. The problem is that no highly successful rehabilitative regimen now exists (encouraging some people to reject rehabilitative efforts altogether) and that the benefits, when they accrue, are not always readily apparent.

Interestingly, the fact that the OJDP has generally had a positive effect on juvenile justice is used by both proponents and opponents of future funding in support of their views. While proponents urge that a good program should not be eliminated but instead allowed to improve on its past efforts, opponents argue that the impetus begun under the offices of the OJDP will continue at the state level after the OJDP no longer exists. If the OJDP is abolished, however, replacement funds for programs must come from state and local treasuries, where competition for existing revenues will intensify as the administration implements other new federalism proposals. Given severe budget difficulties, states and cities will be hard pressed to continue special programs (let alone start new ones), for young people in trouble when the economic benefits lie largely in the future. Under these circumstances, juvenile justice may be an area where federal funding and direction will continue to be useful.


IV. NORTH AMERICA

CANADIAN OIL COMPANIES’ CREDIT CRUNCH - The Canadian oil industry is currently suffering a credit and cash flow crunch even though Canada is widely regarded as having the greatest potential for energy development among the Western nations. The problems facing the industry as a whole are best exemplified by the position of Dome Petroleum, the largest Canadian-owned gas and oil company. Dome now owes $4.6 billion (Can.) to Canadian banks alone and faces a C$12.7 billion payment in March 1983. It must meanwhile spend C$100 million a month on interest payments and dividends, resulting in a reduction of its cash flow to C$30 million in the first quarter of 1982. Dome’s ability to raise money by means other than oil revenues is also severely curtailed. Lines of credit with domestic banks are exhausted, and the company has pledged all its cash-generating assets as security. Now Dome is selling most of its overseas oil properties, principally in Indonesia; but the price is only half the estimated worth of the assets. The Canadian government is also reportedly putting together a package to bail the company out of its difficulties at the cost of over $1.6 billion (Bus. Wks., 8-23-82, p. 36). Economists predict that if Dome should go bankrupt, Canadian banks and the economy in general would be seriously damaged; indeed, such a collapse could politically destroy the Canadian National Energy Program (NEP), of which Dome and its activities have
been both the inspiration and the cornerstone (Wall St. J., 7-22-82, pp. 14; Bus. Wk., 3-29-82, pp. 117+; 6-7-82, pp. 27+; 7-12-82, p. 24).

The implementation of NEP has radically altered the nature of the Canadian oil industry, encouraging Canadian-owned corporations to go heavily into debt at a time of skyrocketing taxes. Before the announcement of NEP in 1980, the Canadian federal government was promoting development of the energy sector in response to the oil crises of the 1970s. The government soon realized, however, that most of the profits, benefits, and control of the oil industry were in the hands of foreigners. Of the top 25 oil companies, 17 were more than 50% foreign owned; out of the 290 million acres of land earmarked for oil exploration, 180 million were controlled by foreigners. In all, only 30% of the Canadian oil industry was owned by Canadians (Mendes, 1981; Bus. Wk., 2-15-81, pp. 25+). NEP was designed to improve Canada's energy security both by encouraging the "Canadianization" of the oil industry to the point that foreign ownership diminished to 50% and by achieving energy self-sufficiency. Both goals were to be reached by 1990.

The policy objectives of NEP were soon translated into concrete legislation. Taxes were greatly increased -- oil industry payments to provincial and federal governments rose by 88% in 1981 -- and depletion allowances were curtailed (Globe & Mail, 7-21-82, p. B1). In the past, allowances had permitted deductions of 33.3% from taxable income for exploration and certain other costs, in addition to the normal full deduction of those expenses (Olarzard, 1981). Allowances were replaced by the Petroleum Incentive Program (PIP), which gave oil firms grants of up to 80% of their exploration costs, depending on the degree of Canadian ownership. To take full advantage of the subsidy, a company had to be 75% Canadian (Bus. Wk., 3-29-82, pp. 117+). Under the new energy policy, then, foreign-owned corporations were heavily disadvantaged and their value thus reduced.

As the government had intended, many oil firms began to follow an aggressive acquisitions policy to buy the devalued foreign firms. Dome Petroleum had for some time been a heavy purchaser of foreign firms, having acquired Sieben's Oil & Gas, Muse Petroleum, and Kaiser Petroleum since 1978. It now purchased Hudson's Bay Oil & Gas at a cost of $3.5 billion (Bus. Wk., 3-29-82, pp. 117+). Dome's subsequent debt to the five largest Canadian banks constituted 40% of its total equity and reserves (Wall St. J., 7-22-82, pp. 1+). Moreover, while the PIP grants pumped capital into exploration, industry payments to the government increased in the aggregate. By September 1981 the corporate share of oil revenues had fallen to an estimated 35% (Petroleum Economist, 7-82, pp. 294+). The Canadian Petroleum Association estimates that additional taxes cut exploration and development spending by 7-8% in 1981 (Globe & Mail, 7-21-82, p. B1).

Another factor contributing to the oil industry's predicament is the lower demand for oil resulting from a worldwide oversupply and the gradual increase in Canada's domestic prices. The National Energy Program was based on the assumption that real energy prices would continue to increase at an annual rate of 2% (Wall St. J., 6-29-82, p. 1). Instead, lower domestic demand and stable world prices have prevented Dome from obtaining vital cash flows and may preclude it from commercializing its intensive Beaufort Sea explorations (Bus. Wk., 3-29-82, pp. 117+).

Part of the risk surrounding development of oil resources in the Beaufort Sea arises from serious technical problems that accompany drilling in deep arctic waters. Since fixed steel or concrete platforms cannot hold up under the area's freezing weather, huge dredges must create artificial islands upon which rigs can be mounted. Moreover, conventional tankers are unable to bear through the ice; so huge ice-breaking super tankers must be built. Presently, no Canadian shipyard is able to manufacture these immense tankers ("Canadian...", 1982; Canada Today, 5-82). Another problem in developing the Beaufort Sea is the dangerous moving ice that only allows drilling for a few months each year. Yet Dome has found oil in all but 1 of the 14 wells drilled in the Beaufort region (Wall St. J., 7-22-82, pp. 11; Oil & Gas J., 6-28-82, pp. 41 & 5+).
Dome's success in the Beaufort Sea depends not only on solving the technical problems, but also on resolving its financial woes. The company is faced with a vicious circle, for its financial health depends on Beaufort Sea development, while commercializing Beaufort oil depends on Dome's financial health. The cost of oil development in the region to 1990 is estimated at C$25 billion. Dome's largest bills will come from shipbuilding and equipment construction (C$9 billion) and dredging and island construction (C$8 billion) ("Canadian...", 1982). Unsurprisingly, exploration declined in 1981 as Dome pumped more of its capital into acquiring already existing assets. Regardless of its huge debt, however, Dome cannot extract itself from current financial problems unless it invests a great deal more money in Beaufort. The company plans to spend C$500 million there in 1982, most of it on exploration drilling (Bell, 1982).

While the immediate future of the Canadian oil industry looks bleak, industry and government officials remain optimistic about long-term energy development in Canada. In particular, they are hopeful that Dome's operations in the Beaufort Sea may eventually recover 40 billion barrels of oil (Bus. Wk., 3-29-82, pp. 1174). Anticipating this oil reserve, Japan is cultivating Dome as a future trading partner. In 1981 the Japanese Arctic Petroleum Corporation loaned Dome C$400 million and agreed to provide additional funds later. The loan terms make the transfer more a gift than a business transaction. If oil is produced from Beaufort, Dome will repay the loan in oil at 15% interest. If, however, Beaufort does not produce, the loan becomes interest free and does not have to be repaid until 2030 (Canadian Bus., 8-81, p. 7). In addition, Dome's consortium was recently selected to build a C$3 billion liquified natural gas plant in British Columbia. The provincial government chose Dome's group because it was the only one holding signed contracts (with the Japanese) for the gas output. Japan also made loans of US$1.2 billion to the consortium at favorable rates (Globe & Mail, 7-16-82, pp. 51+).

Critics of Dome's operations insist that capital is limited and that the corporation, contrary to its plans, will not be able to increase or maintain its present level of exploratory spending. Many observers of the Canadian oil industry in general believe the Canadianization policy has diverted valuable domestic savings from exploration to acquisitions and will continued to do so. Moreover, they point out that in the future the limited role played by foreigners will shut Canada off from foreign technology and managerial skills, so that more dollars will have to be diverted into these areas (Hubley, 1982).


V. EDITORIAL

RESOLVING THE INTERNATIONAL ECONOMIC CRISIS - Throughout history every society has had to come to terms with its external environment. This has always been a complex and controversial task because domestic interests and groups are affected in different ways by the penetration of international politics and economics into the national arena. Resolving the present crises in the international economy, however, poses a formidable task because the degree of international interdependence is at an all-time high. The policy responses of governments are bound to vary with national perceptions of self-interest and of appropriate priorities. The consequences of disharmony in an interdependent world, however, are becoming more and more apparent.
Most industrialized countries recognize that they cannot solve problems of high inflation, monetary disorder, unemployment, and a host of other economic maladies by resorting to beggar-thy-neighbor policies of protectionism. Yet since most of these countries are democratic and accountable to nationally minded voters, they have been reluctant to make tough decisions requiring domestic groups to bear the sacrifices necessary to revitalize the world economy.

A great debate continues about whether most of the present international economic difficulties result from such international factors as the rise in energy and natural resource prices or from domestic demographic changes and sectoral obsolescence. Both international and domestic factors have played an important role, but until their relative contributions are agreed upon, responsibility for sacrifices cannot be appropriately allocated.

A major domestic problem of advanced industrial countries is ensuring economic stability and efficient competition is their inability to provide acceptable alternative forms of employment and income to workers in outdated industries. A return to agriculture is unfeasible, since employment possibilities in this sector are even poorer than in industry. Some displaced workers can be transferred into public works, but this often means moving them to distant locations at a high public cost that diverts capital from industrial modernization. Absorbing workers into the personal service sector is also difficult, because the jobs often require communication and organizational skills not easily acquired by middle-aged steel, textile, and other industrial workers. Low-skilled service sector employment is an even less attractive alternative, because income is low and the sector dominated by unskilled workers (largely immigrants and women) who would face displacement themselves. Thus, the bleak reemployment prospects for displaced industrial workers accounts for their increasing political and economic resentment. Where these workers are highly politicized, violence can erupt. Even where they are not, the situation may lead to self-destruction, alcoholism, and social collapse. While firms can diversify their capital investments into other sectors of production or "go multinational" to take advantage of their industrial skills and technology in developing countries, labor is much less mobile and must bear most, if not all, of the costs of industrial obsolescence.

Predictably, domestic economic groups, especially labor unions, have pressured their governments to shift some of the economic sacrifices they are having to make onto the international marketplace, creating a new wave of protectionism. Steel, auto, textile, and shipyard workers everywhere blame their loss of jobs on the "excessive" consumption of imports, and press for keeping the economic benefits of domestic consumption at home. Whenever possible, they also push for governmental subsidies to make exports more feasible and competitive.

These domestic pressures have put tremendous burdens on the postwar system of international trade. Industrialized countries have tried for 35 years to promote freer trade regardless of the political consequences. Now, however, the politicization of economic policy has caused a struggle to determine what is "fair" trade. As Helmut Schmidt said:

Admittedly specialization, division of labor and free trade across national boundaries have increased the wealth of nations and caused an immense supply of goods in the same way as the division of labor increased production within a single nation. But the main problem then is to define the laws which determine the distribution of this enormous output; it might be added: which determine the "fair" distribution, the "equitable" price, the "proper" value. (Schmidt, 1974:442)

Governments and firms everywhere in the Western Industrialized world preach the virtues of free trade and believe it a necessary precondition for the maximization of economic growth and capital efficiency. The compelling political attraction of free trade is its promotion of economic growth which can be institutionalized into policy programs that serve as substitutes for the redistribution of wealth. Inherent in this view of international economic relations is an assumption of minimal conflict of interest between states. The existing
international economic system is highly politicized, however, rather than politically neutral, as classical economic theory assumes.

If progress is to be made in improving international economic conditions, nations must adopt policies ensuring that international trade is both free and fair. Neither the clenched fist of restrictive regulation nor the invisible hand of classical economic theory will achieve this balance. Through the General Agreement on Tariffs and Trade (GATT) and its attendant negotiations, some progress has already been made in reducing tariffs. Now is the time to turn to the proliferating non-tariff barriers, such as price floors and ceilings, interest subsidies, and monetary and exchange controls. In the process, domestic and international circumstances must be balanced against one another. Policymakers must be restrained in their promises of painless domestic economic policies. And business executives and economists must set aside notions of an ideal world in which political considerations are ignored or completely subordinated to principles of economic efficiency.

A new balance must also be struck between the interests of less developed countries (LDCs) and advanced industrial countries. While the third world, which accounts for 70% of the earth’s population, currently produces only 20% of its industrial goods, the percentages of production have been increasing since the mid-1960s. Advanced countries cannot expect the LDCs to forswear development of their own industries when the economic benefits of industrialization are so obvious. Moreover, since the majority of natural resources used in industry originate in less developed countries, we should not be surprised when LDCs make political demands for greater access to industrial technologies and markets. Indeed, the LDCs find it quite hypocritical that advanced countries, which preached free trade principles to them for most of the postwar period, now resort to protectionism as the developing world becomes more competitive in marketing industrial goods. Without general international agreements about what is both free and fair trade, political retaliation in the form of natural resource cutoffs and price gouging by resource-rich countries in the third world will probably escalate.

A tremendous opportunity now exists with the Law of the Sea Treaty to alleviate some of the most pressing problems of interational resource scarcity. Fears are widespread throughout the LDCs that before they are able to develop their own industrial systems, advanced countries will have depleted virtually all the planet’s conventional land-based resources. Worse, they fear the new sea-based resources may be seriously depleted as well. If balanced agreements between the interests of the advanced countries and those of the newly industrializing countries are not achieved in the areas of trade and resources within the next few years, the economic disruptions of the 1960s may seem minor skirmishes compared with the major battles of the 1980s.

A serious effort to deal with the problems of industrial obsolescence, trade policy, and resource management, if begun ten years ago, might have made adjustments easier than they are today. Putting off these problems now will make them yet more difficult in the years ahead. While most observers are pessimistic about the effectiveness of global economic management, the prospects of increasing nationalism, parochial ideologies, and blame-thy-neighbor policies are even more gloomy. In 1944 Eugene Staley accurately predicted current economic trends and proposed the following:

The most feasible and also the most constructive alternative to restrictive intervention by the State is not non-intervention (laissez-faire), but intervention of a more constructive kind -- namely, a positive program of industrial (and trade) adaptation. Such a programme would be designed to assist industry and labor in reorienting themselves, so that they can take maximum advantage of new opportunities. In this way the enterprise and initiative of citizens will be preserved and will be exerted in the most promising directions. The results of such a programme might well be in many (but not all) respects similar to that which the automatic market system would accomplish if it were able to function with the theoretical perfection assumed in text books. But the process of adjustment ought to go forward with more attention to the
human problems of the individuals directly involved and with less infliction of suffering on particular groups. (Staley, 1944:177)

During the past ten years, the calls from developing countries for a "new international economic order" have become more insistent. Specific demands include an integrated commodity program with a common fund, improvement of developing countries' terms of trade, better access to the markets of industrialized countries, improved access to modern industrial technology, and more effective action to alleviate the debt burden of LDCs. Such a readjustment of international economic relations would demand substantial sacrifices by citizens of advanced industrial countries. Even without a readjustment, arrangements must be made requiring sacrifices that many people in these countries are not used to making. But people in the LDCs are already making sacrifices far beyond anything that could be imagined necessary in industrialized countries.

That the world is very interdependent and very political will not change. This does not mean, however, there is no room for hope. It simply means that we all have to learn how to get along better and how to balance legitimate domestic and international needs. The process -- an old one -- is always slow and often frustrating; but as long as people are willing to keep trying, the future holds promise.

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