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 mitigate the debt burden of LDCs. Such a reordering of international economic relations would demand substantial sacrifices by citizens of advanced industrial countries. Even without a reordering, arrangements must be made requiring sacrifices that many people in those 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.

Philip Meeks

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 - CRISIS IN WORLD BANKING

The annual meetings of the International Monetary Fund (IMF) and the World Bank held earlier this month in Toronto coincided with a number of severe financial crises throughout the world which have conjured up the specter of a collapse in the international financial system. The recent debt crises in Mexico and Poland, together with Argentina's financial plight, have focused attention on the vulnerability of many Western banking systems. The extent of exposure of major Western banks to developing country risk implies considerable repercussions in their respective domestic environments should loan defaults occur. Non-oil developing countries increased their outstanding medium- and long-term debt over the past three years by 60% to approximately $440 billion. Another $100 billion is held in short-term debt, with about 60% owed to private financial institutions. Given the porous state of the world economy and trade, particularly in raw-material commodity items, the possibility of large-scale defaults by some developing countries is high. Furthermore, considering the scope and interdependence of multinational banking in today's world, the effects of such financial failures would be felt throughout all major financial centers (Chm. Sci. Mon., 9/7-82, p. 3; J. of Commerce, 9-2-82, pp. 4A, 8A & 1A; N.Y. Times, 9-3-82, p. 30; Wall St. J., 9-3-82, p. 19; 9-2-82, p. 16; Int'l. Currency Rev., 3-82, pp. 23-28).

The general feeling of uncertainty pervading the private internationally banking environment has tended to make bankers much more cautious in cross-border lending in recent months. This caution, however, may have the paradoxical effect of triggering further financial difficulties in debtor nations, adding to the crisis of confidence. In 1973 and 1974, massive oil price rises caused much concern that the imbalances resulting from large shifts in international liquidity could not be accommodated. In fact, private Western banks may have been too successful in recycling petrodollars. Their passivity in granting loans to developing countries, together with the present dismal world economic
climate, has forced many banks into the lender’s trap of having to provide a large proportion of the balance-of-payments financing just to keep their borrowers afloat. As a result, the distinction between the traditional role of the IMF and that of other cross-border lenders is no longer clearly demarcated (Mendelson, 1982; Int'l. Currency Review, 3-82, pp. 23-28; J. of Commerce, 9-7-82, p. 11; Wall St. J., 9-3-82, p. 19; 9-7-82 pp. 21; Economist, 9-14-82, p. 15f).

In the face of this world economic scenario, the prime issue at the Toronto meetings was the adequacy of IMF resources to meet an international liquidity crisis. France and most of the third world are calling for a doubling of the Fund’s quotas — i.e., contributions by member countries to the Fund now account for 7% of world trade, whereas today this figure has fallen to 3.5%. Similarly, while in 1960 IMF quotas accounted for almost 67% of the aggregate reserves of IMF members, that percentage has shrunk to less than 19%

The U.S., the Fund’s largest quota subscriber, opposes a large quota increase. The Reagan administration has exhibited an emotional bias against international agencies, with the thrust of U.S. policy being to diminish the role of the IMF and World Bank and to place more of the development burden on the private sector. The U.S. would prefer a modest increase in the pool to about $20 billion, coupled with more stringent “conditionality” provisions on IMF emergency loans. Administration officials contend that in the past five years the IMF has dispersed funds without ensuring that debtors alter the policies which created balance-of-payments problems in the first place. In their view, the resources of the Fund should be used only when a country’s solvency is threatened — not for ongoing requirements (N.Y. Times, 9-2-82, p. 30; 9-2-82, p. 27; Banker, 5-82, pp. 97f).

While the U.S. desire to keep the purpose of the IMF close to its original mandate in the Articles of Agreement may have merit, it is also true that the institution’s ability to foster growth in less developed countries has helped U.S. exports. At present, developing countries buy nearly 40% of U.S. exports, supporting a worker pool of nearly 2 million. Furthermore, private-sector financial institutions and the IMF and World Bank are complimentary. Infrastructure development, fostered by loans from international organizations, makes possible other private-sector investment possibilities. The World Bank and commercial banks are handling a growing volume of cofinancing arrangements, entering into separate but related loan agreements with borrowers under conditions that include optional cross-default clauses. The World Bank and the IMF are uniquely qualified to ameliorate the risk of investment and to overcome the bottlenecks that make growth possible. The monitoring role of the IMF, together with its greater financial leverage, is often the catalyst needed to pry loose private sector lending. If IMF quotas are not increased substantially so that the Fund can function to stimulate investment and growth, world trade may continue to stagnate, leading to greater waves of protectionism, with their attendant recession-inducing effects (N.Y. Times, 9-2-82, p. 25; 9-7-82, pp. 14; Banker, 5-82, pp. 112f; I.B. Times, 1982; Multiplustr. Bus., no. 2, 1982, pp. 54f).

The IMF has experienced difficulty, especially in recent years, in securing government compliance with the domestic economic adjustments necessary to improve balance-of-payments positions. In some cases the reason has been that conditions laid down for financial assistance created palpable domestic hardships, with serious political overtones for an unstable developing country. The principle of IMF “conditionality” — i.e., the requirement of specified changes in the domestic economic policy of nations receiving IMF aid — is viewed as a necessary means of ensuring the temporary and revolving use of Fund resources. Thus IMF financing has become connected with domestic adjustments via “conditionality,” but the efficacy of this approach is increasingly being questioned. Faced with the mandate of inducing improvement in a country’s balance of payments in the short term, the IMF has traditionally concentrated on demand-side adjustments — with restriction of domestic credit
creation being the major tool --- simply because overexpansory demand policies have been the most frequent cause of balance-of-payments difficulties. In recent years, however, the causes of payment imbalances have more often been exogenous variables, such as import prices (e.g., for oil) and export volume (falling demand for commodtities), with the result that restrictions on domestic demand policies, while they may achieve the desired result, do so at greater cost. Where deficits reflect a country's structure of production and trade, appropriate adjustments should be long term and structural. In other words, supply-side adjustments -- to facilitate the production of import substitutes, for example -- are more appropriate. The clear implication of this reasoning is that external financing and assistance must become more long-term. It is ironic that a U.S. administration with leanings toward a supply-side economic philosophy should be pushing for tougher conditionality provisions and for shorter-term IMF funding for developing countries at the same time it is following expansionary financial policies to stimulate investment at home (Bancker, 5-82, pp. 97f; Bird, 1982; Hummer, 1982).

The present international financial crisis has illustrated how vulnerable the present global system is. Defaults by large debtor nations cannot be quarantined from a system that has so many interlocking relationships. As such, the present discussions on the appropriate roles of multilateral agencies is timely. Further, the present crisis indicates the need to address issues that have followed in the wake of the rapid extension of multinational banking. The problem of bank regulation is a salient example. The coexistence of global banking networks knowing no jurisdictional boundaries and a fragmented regulatory structure based on disparate regulatory agencies can seriously undermine the stability of the international banking system. Progress in this area has been adysmal. Not one national authority imposes direct controls on commercial banks' country risk exposures. Disparities in national preventive regulation has also tended to weaken global financial discipline and eroded the ability of the system to withstand external shocks (Dale, 1982; Int'l. Currency Review, 7-82, pp. 31f; Riljsdijk, 1982).


II. INTERNATIONAL ARRANGEMENTS

POLITICAL/MILITARY - CONFLICT IN THE OAU

On August 5, the Organization of African Unity (OAU) failed to hold a summit meeting. Political differences have so divided member nations that not enough heads of state were present to form a quorum. Failure to convene the summit and the reasons for that failure raise important questions about the future of the OAU as a factor in African affairs and about the prospects for U.S. relations with the nations of that continent.

The immediate cause of OAU problems is the inability to resolve a dispute over membership in the organization of the Sahrawi Arab Democratic Republic (SADR), the government-in-exile of the Polisario guerrillas, who challenge Morocco's annexation of the former Spanish colony of Western Sahara. The SADR was granted membership in February by the secretary general of the OAU, Edouard Kodjo of Togo, without a formal vote. Kodjo argued that section 28 of the OAU charter gives the secretary general power to grant membership to sovereign and independent states once a majority of the members have indicated their approval. Twenty-six member nations had formally recognized the SADR as a legitimate
government. Morocco argues, however, that the SADR is neither independent nor sovereign — not sovereign in its own territory, as the charter requires — and that at the least this difference of interpretation requires a summit vote and a two-thirds majority (Chr. Sci. Mon., 7-28-82, p. 5; Economist, 7-17-82, pp. 394; N.Y. Times, 8-4-82, p. 2).

Since the SADR was given membership, attempts to hold OAU meetings have been largely unsuccessful. Sometimes meetings have been boycotted by enough nations to prevent a quorum from forming; at other times walkouts have forced meetings to be adjourned. If the SADR is invited, Morocco leaves along with its allies that oppose membership for the Polisario. If the SADR is not invited, Algeria and the other states favoring membership leave. Nigeria has been working on a conciliatory plan whereby SADR membership would not be revoked but the Polisario would not insist on being seated at the meetings. At a July 26 foreign ministers’ meeting, which was to make final arrangements for the summit, the SADR refused to abide by this plan. So many nations then left that the meeting had to be abandoned before it was formally convened (Economist, 7-17-82, pp. 394; Chr. Sci. Mon., 7-28-82, p. 5).

The U.S. officially supports the position of Morocco, whose monarchy has traditionally been friendly to the U.S. Morocco permits the Sixth Fleet to call at its ports and encouraged the Israeli-Egyptian peace proposal. In addition, Morocco sent troops to protect Western interests in Zaire’s Shaba province and has acted as a moderate force in various international forums. The other African nations opposing recognition of the SADR also tend to be moderate or conservative states with close U.S. relations. The nations which join Algeria in supporting the Polisarios tend to be radical, with ties to the USSR (Hearings, 1979, pp. 1-3; Chr. Sci. Mon., 8-5-82, p. 8).

This division along roughly strategic lines has fueled the suspicions of radical third world states (particularly Libya in the person of Qaddafi) that the U.S. lobbied nations with whom it has close relations to boycott the August summit meeting. Qaddafi asserts that the SADR conflict was merely a secondary issue to U.S. interference with the OAU as part of a “grand plan" to destabilize Africa and the third world. Such accusations, of course, ignore the fact that the accusing nations themselves have in the past boycotted or walked out of meetings, apparently without any provoking from the U.S. Also avoided is consideration of the self-interest of the moderate and conservative African states in not recognizing the right of a radical guerrilla movement to overthrow the rule of one of their own. The U.S. has denied any active campaign to prevent the summit, but officials do not hide their satisfaction in Qaddafi’s embarrassment. Had the meeting been held, the Libyan leader would have become chairman of the OAU; he cannot do so until a quorum is formed (N.Y. Times, 8-12-82, p. 5).

Qaddafi gave notice that he was prepared to set up a breakaway African movement if efforts failed to reconvene the OAU. That possibility underlines the uncertain status of the organization. The 28 (of 50) states which did meet in Tripoli — largely radical allies of Libya — issued a declaration denouncing Israel, South Africa, and the U.S. The harsh nature of the document could make moderate nations more reluctant to associate with the radicals, further endangering the OAU (N.Y. Times, 8-9-82, p. 5; 8-12-82, p. 9).

The OAU has two basic functions: to resolve conflicts within an African context and to provide an African viewpoint in various international forums. In the case of the Western Sahara, the OAU has failed in its conflict-resolution role. Last year, at a summit meeting in Nairobi, the OAU passed a resolution supporting self-determination in the Western Sahara through a referendum. Coinciding as it does with the withdrawal of OAU peacekeeping forces from Chad because of their ineffectiveness, the OAU’s violation of this resolution by recognizing the SADR without a referendum seriously endangers its credibility in future attempts at arranging peaceful settlements. The consequent disunity among its members impedes the OAU’s ability to speak for Africa in international forums (N.Y. Times, 7-25-82, p. 12; 8-12-82, p. 5).

The OAU as presently organized may be unsuited to the task of arranging peaceful settlements of disputes. Leadership changes annually,
and no records are passed from administration to administration. No politico-military section of the organization exists to aid leaders in analyzing conflict situations. The OAU has no coercive power. Ralliance is placed solely on diplomatic methods. Thus, peaceful settlement ultimately depends on the disputants themselves for success. Because future African conflicts will probably be of at least nominally in the form of East-versus-West (U.S. ally against Soviet ally, radical guerrillas against conservative government, or vice-versa), the OAU needs a stronger mechanism through which to ensure that conflicts are resolved without interference by the superpowers (Akuchu, 1977; Hammang, 1981; Ohnagbutan, 1981/82).

A more powerful OAU may be difficult to achieve, however. The nations of Africa, like nations elsewhere, usually place their own interests above those of Africa as a whole. Africa, it has been argued, could be economically prosperous and independent of the ex-colonial powers if national interests were not so dominant. That the nations of Africa do not have a continental perspective, either economically or politically, leaves them open to dalliance from and alliance with West and East and inhibits their ability, through the OAU, to seek truly African solutions to their problems. Concern has been expressed that an openly divided Africa, as a result from the SADR dispute, would invite a renewed scramble for influence by foreign powers (N.Y. Times, 8-4-82, p. 2; Carverka, 1976).

Blame for African disunity must be shared by the United States and the Soviet Union. Reagan's policy toward Africa has been praised as being "strategic" -- i.e., having an East-West perspective -- which presumably leaves African nations free to determine their own interests. The opposite may be true. By supporting Morocco, both politically and with military aid, the U.S. helps it to resist a peaceful settlement and push for its own solution. This contributes to the disunity among African nations and weakens the OAU. Interestingly, some have argued that the single major impediment to a fulfillment of the OAU's mediating role is intervention of the major powers. U.S. strategic policy reinforces the national-interest orientation of Africa, preventing a determination through the OAU of what comprises pan-African interests. Moreover, the policy may not be strategic. Analysts agree that the present OAU failure can rigidly ideological times and consequently increase anti-American sentiment. To the extent that U.S. policy weakens the OAU, it strengthens the influence of the Soviet Union (N.Y. Times, 8-12-82, p. 5; Thompson, 1982; Akuchu, 1977).

Soviet policy toward Africa is also poorly designed to promote harmony within the continent. Preaching that only communism can rescue the former colonies from their political and economic plight, the Russians offer aid to governments accepting this theory; and the Soviet Union aligns itself with local Marxist-Leninists against established governments with Western ties. Such Soviet policies cause moderate and conservative governments to be even more virulently pro-Western and provide them with a further rationale for suppressing domestic dissidents and for allying against their more radical neighbors. The Soviet Union (like the U.S.) has a policy of avoiding discussions about a redistribution of wealth between rich and poor nations in forums where less developed countries can dominate. The poorer countries typically make no distinction between East and West within those North-South dialogues; and worse, from the Soviet point of view, such talks often lead to an alliance between poor nations of the South and the People's Republic of China. While the USSR is willing to give aid to poorer countries, it wants that aid to further its own economic and political goals. Thus, African nations accepting aid, either from East or West, often find themselves exchanging their former colonial bonds for the economic dependence of neocolonialism (Ohnagbutan, 1981/82; Desfosses, 1980/81).

The issues exemplified by the Polisario dispute present a conundrum. It appears true both that the intervention of major powers inhibits African self-determination and that a lack of African self-determination invites major-power intervention. If the U.S. and the USSR are consciously trying to prevent a nascent pan-Africanism, that, at least, is understandable. The result might be a strong political and economic force which neither could control and which would threaten their
position as world powers. What is less understandable is why Africa, and other parts of the third world, continue to adhere to the lines of East and West when their own interests are not served by this ideological division (Akuchu, 1977; Choaogbtian, 1981/82; Carvenka, 1976).


III. DOMESTIC ISSUES

VALUES - ASBESTOS LITIGATION AND BANKRUPTCY

Early this summer the U.S. Supreme Court ruled that bankruptcy judges, though operating within the federal system, were not "Article III" judges under the terms of the U.S. Constitution (that is, could not be considered the equivalent of regular federal district court judges) and thus were unqualified to hear a broad range of disputes, including those involving product liability. The ruling’s effective date was deferred until October 4 in anticipation that Congress would legislate broader jurisdiction for bankruptcy judges in the context of the new bankruptcy code. Also this summer a congressional committee chaired by Senator Dole (R-Kan.) began a review of the bankruptcy code which was to consider possible changes in the jurisdiction of bankruptcy judges and the granting of lifetime tenure to them (Wall St. J., 8-30-82, p. 3). Although the review promised to be complex and controversial, a month extension of the present code to provide for lifetime tenure and expanded jurisdiction seemed likely.

These prospects were altered, however, on August 26 when the Manville Corporation, the largest producer of asbestos in the free world, filed for voluntary bankruptcy (Wall St. J., 8-27-82, p. 1). Although its current assets exceeded existing liabilities, Manville asserted that litigation arising from asbestos-related injuries would result in claims far beyond Manville’s ability to pay. Consequently, they sought protective relief in an effort to preserve the assets of their non-asbestos-related subsidiaries. The bankruptcy petition automatically stayed all litigation nationwide against Manville. Other asbestos manufacturers and related insurers immediately sought stays for themselves as well, on grounds that it would be inequitable for the courts to protect Manville without providing similar protection to other litigants, who might otherwise bear an unfair share of the burden of litigation. Such temporary stays have been issued in many states, including Georgia and Ohio.

Manufacturers of such potentially dangerous products as formaldehyde and Agent Orange, operating on the theory that the massive litigation involving asbestos-related injuries would soon spread to affect them as well, have quietly pushed legislation that would limit industry-wide product liability litigation (Wall St. J., 9-5-82, p. 3). Some assert this legislation is needed to prevent companies from filing for bankruptcy as a means of limiting damages paid for product injuries.

These activities regarding bankruptcy, asbestos litigation, and general products liability legislation raise perplexing and far-reaching questions. Manville’s petition for bankruptcy has shifted responsibility for asbestos litigation from federal district court judges, who
would normally hear this type of case, to federal bankruptcy judges. Bankruptcy experts argue that the latter can make appropriate judgments in the asbestos cases, but the originators of the bankruptcy code could hardly have envisioned the massive transfer of jurisdiction which the Manville petition -- involving over 16,000 individual cases -- has accomplished. Admittedly, overburdened federal district court judges have at times sought case load relief by transferring jurisdiction in certain instances; but they have never been party to the wholesale delegation of their jurisdiction.

Even more controversial is the fact that, should asbestos litigation remain in the bankruptcy courts, all cases would be resolved through application of a single set of legal principles. Prior to the Manville action, litigation involving product liability injuries was heard in federal district courts, where the applicable law was considered to be the substantive tort law of the state in which each individual case was being tried. In essence, a single bankruptcy petition could have the effect of federalizing the law relating to asbestos injury, at least insomuch as the Manville Corporation is concerned. It stays of litigation against other manufacturers and insurers are lifted, then liability against these defendants would be decided with the numerous conflicting principles operative in each state. Not only will manufacturers consider this unfair, but protectors of states' rights will surely object to such a massive federal invasion of state sovereignty at a time when federalism of fiscal responsibility is being resolutely pursued by President Reagan.

In the event Congress seeks to resolve this dilemma through legislation specific to asbestos or through more broadly applicable products liability legislation, injured plaintiffs, should their potential rewards be reduced, will strenuously object. The ensuing controversy could equal or exceed that associated with adoption of state workers' compensation laws decades ago. It would also expose the conflicting interests of the asbestos litigation defendants and their attorneys. Many manufacturers and insurers favor legislative intervention that would limit their liabilities and truncate costly litigation involving billions of dollars in legal fees. It is in the self-interest of their attorneys, however, to oppose such measures. While they cannot publicly contest the stays of litigation or the legislative efforts in connection with the cases they handle, attorneys specializing in asbestos and other types of products liability litigation may well act indirectly to promote the status quo, which is conducive to expanded litigation in many product fields.

Apart from forcing into public view a broad variety of conflicts of interest, the Manville bankruptcy petition and collateral efforts to limit products liability will bring several legal and ethical principles into conflict and stimulate reevaluation of what has become conventional wisdom. Since the early 1960s products liability cases have systematized the emergence of new jurisprudence supporting retrospective assignment of risk. Thus, years after manufacturers have produced and sold products from cars to printing presses based on certain expectations -- deemed appropriate at the time -- concerning environmental conditions, usage, and the consequent risk involved, courts have assigned these additional risks regarding the use of their products and assessed costs commensurate with those risks. Both the quality control standards and prices set to make the reasonable and turn out to be woefully inadequate. Some assessments have reached mammoth proportions in individual cases where products caused serious injuries.

In a time of growing liberalism, such reassessments of risk and responsibility were acceptable under the theory that manufacturers were in the best position to minimize risk. Some courts even went so far as to develop the so-called "deep-pocket theory," which deals not with capacity to rectify risk, but merely with capacity to pay for damages. In certain cases the corporate owners charged with bearing the costs of retrospective risk never actually produced the offending product. They simply bought out the original company and used its facilities for some other purpose without any awareness of the risks they were assuming. Today, when the bankruptcy of major as well as small corporations is common on the American scene, blind adherence to deep-pocket explanations are unlikely to be politically acceptable.
Finally, barring legislation clearly limiting manufacturers' liability, the intersection of asbestos litigation and bankruptcy petitions may force the Securities and Exchange Commission (SEC) to revise its disclosure requirements. The SEC must continually grapple with the question of whether manufacturers must keep existing and potential investors apprised of the most extreme consequences of marketing particular classes of products. During the 1970s the SEC relentlessly pursued full disclosure of facts about company operations affecting investor decisions. More recently, however, the commission has retreated somewhat from this position in light of criticism about the utility of disclosure and the dampening effects of excessive disclosure on capital investment in emerging fields. Much of the nation's economic growth is based on the vigorous pursuit of new products and techniques. It seems inconsistent to burden innovators with a requirement to speculate about the worst possible market consequences while simultaneously struggling to increase the rate of innovation. However, given the magnitude of sums involved in the asbestos litigation -- sufficient to terminate operations of the largest producer of a major commodity -- the SEC can be expected to make new moves regarding fuller disclosure, especially in the toxic chemical area.


IV. NORTH AMERICA

MEXICAN AGRICULTURE AND THE COUNTRY'S FINANCIAL CRISIS - Mexican agriculture affects Americans. Mexican commercial farmers produce over 50% of the available tomatoes, cucumbers, squash, eggplant, and bell peppers that Americans consume during the winter months. These farmers also provide food for Mexican urban dwellers, while ejidos (communal farms) are a major source of food for rural inhabitants. Portillo's nationalization of the banks, together with the latest peso devaluation and subsequent involvement of the International Monetary Fund ( IMF), will have a definitive impact on Mexican agriculture and the food supply. In turn, if Mexico should no longer be able to feed its people at reasonable prices more illegal aliens will be trying to cross the border into the U.S. Already the government has reduced subsidies on such staples as tortillas and bread, causing the prices of these items to climb by 100% while incomes have remained constant. Although reducing consumer subsidies may be necessary for Mexico's financial health, it is a politically volatile step because many Mexicans subsisting on the margin can ill-afford any price increase at all. In trying to cure Mexico's financial problems, President-elect de la Madrid will probably make further compromises with the Sistema Alimentario Mexicano (SAM). Mexico's recently introduced food supply system designed to make the country self-sufficient in foodstuffs primarily by helping the large number of marginal farmers to raise their productivity. SAM provides subsidies for production, distribution, and consumption (Latin AmericaWeekly Report, 8-6-82 pp. 3; Foreign Agriculture, 11-81, pp. 5+).

Logging production was one factor prompting the creation of SAM. In the past Mexico was a major supplier of agricultural products to the U.S., but by 1980 the agricultural trade balance favored the U.S. by $1.5 billion (Foreign Agriculture, 11-81, pp. 5+). Industrialization and changing market demand prompted the shift to Mexican agricultural dependence. Industrialization created a growing urban middle class that demanded more meat, poultry, and processed foods. At the same time domestic industry was calling for cotton, sugar, and soybeans, and the U.S. was wanting feeder cattle, vegetables, citrus fruits, and coffee.
The government had no official policies to prevent farmers from concentrating on livestock production and export and forage crops (Bailey, 1981). This diversion of resources, coupled with a rapidly increasing population, forced small production of staple foods per capita. In 1979-80, bad weather damaged much of Mexico's crops, so that the country had to import 10 million tons of food from the U.S. When President Carter imposed a grain embargo on the Soviet Union in retaliation for the invasion of Afghanistan, Mexico realized the danger of agricultural dependence and set out on a program of self-sufficiency (Worldview, 12-02, pp. 10+).

On the forty-second anniversary of Mexico's expropriation of the oil industry in March 1980, President Jose Lopez Portillo inaugurated SAM, the new Mexican food system. The goals of this program were to use foreign exchange from oil exports to become self-sufficient in corn and beans by 1982 and in other staples by 1985; to generate employment; and to improve the peasants' standard of living in order to prevent further migration to overcrowded cities (Bailey, 1981). Elements of the program beneficial to farmers included:

1. Higher prices for the producers of basic foods.
2. Improved technology in the form of fertilizers and more productive seeds, provided at reduced costs.
3. Increased credit for ejidos, the communal farms set up after the Revolution of 1910, and
4. A program of shared risk through expanded crop insurance.

SAM also provides subsidies for processing and distribution through CONASUPO, the federally owned marketing chain. In 1980 SAM's production costs were $2.2 billion, with subsidies for consumers costing an additional $1.5 billion (Miller, 1982).

Today Mexican agriculture is carried out primarily by two distinct groups: ejidos and private farms. With 2 million farmers, the ejidos comprise the largest group. An ejido is formed by a government grant to a self-organized group of farmers. The land is then divided equally among the members. Once an ejido is established, land occupancy is frozen; it can be inherited, but not sold. If a member wishes to stop farming, he must give up his land without compensation. Although some ejidos are efficient, archaic laws catering to the spirit of the Revolution reduce the efficiency of many others. As they have been passed down from father to sons, they have become uneconomically small to farm, and because members have no legal entitlement to compensation, they have less incentive to improve the land (Yates, 1981:140-66; Bates, 1981).

Private farmers comprise the other major unit of Mexican agriculture in terms of production. This group includes small private farmers, plantation owners in the coastal areas, and the south, ranchers, and private farmers in the irrigation districts of the north. Northern farmers have received several decades of government encouragement and support for increased production. In addition, because hacendado owners subject to expropriation during land reform programs were able to choose which lands they would keep, the larger private farms are generally located on more fertile lands. Many are now highly productive commercial operations using the most modern techniques and serving both national and international markets (Yates, 1981:140-66).

By contrast, ejidos are on much less fertile land and are therefore less productive. Furthermore, because they are collectively owned, the land cannot be mortgaged. Ejido farmers thus lack the means to obtain credit to purchase needed items such as seeds, fertilizer, and machinery to improve production. While production subsidies through SAM have encouraged the growing of staple foods, 80% of the 23,000 ejido farms still produce little or no surplus food (Worldview, 6-02, pp. 10+; Riffe, 1981).

Devaluation will not adversely affect private farmers who export goods to the U.S., because they are paid in dollars. Perhaps the financial situation will give them added incentive to increase exports. Many private farmers believe nationalization of the banks will enhance their chances of obtaining loans. In general, private farmers have been able to obtain some credit from private banks; but certain agrarian reform
laws have inhibited banks from lending to farmers. Because little more than 10% of all private farmers have secure land tenure and the laws do not protect them against the danger either of being invaded by squatters or of arbitrary expropriation, loans to them are risky (Yates, 1981:193-234). Private farmers believe nationalized banks will be more willing to loan them money since the government remains eager for increased agricultural production. Credit may thus flow to private enterprises, which have traditionally been the best source of higher productivity.

The effects of the financial crisis on the ejidos are still uncertain. Devaluation has forced the Mexican government to seek outside loans, with the IMF a possible source of $4.1 billion dollars. In order to qualify for IMF funds, however, Mexico must substantially reduce public spending (Rev. of Commerce, 8-23-82, p. 3A). If it is forced to reduce producer subsidies, ejido farmers, who hold the bulk of grain may have produced nearly enough basic food to feed the rural poor last year, could cut back production of staples to concentrate on more profitable export crops.

Nationalization of the banks is not likely to improve the lot of the ejido farmer. Ejidos currently receive federal agricultural credit through the National Rural Credit Bank. Most is in the form of short-term loans, the risks of which are relatively low because the money can be recovered as soon as a harvest is sold. But short-term credit does not contribute to long-term improvements in farm practices, land productivity, and soil conservation. Because most ejidos are on marginal lands, these farmers need a major infusion of long-term money and time-consuming investment to restore the utility of the soil (Yates, 1981: 193-234). At this point it is not likely that even nationalized banks would make such projects.

With oil the glamour product on which Mexico has built its export hopes, neither the Mexican government nor the Mexican press has given agricultural production much coverage in recent months. But Mexico needs to increase its foreign exchange earnings, and many observers feel it will not be able to do so while oil alone. Oil exports are currently hovering around 1.6 million barrels a day. Limited port and storage facilities will prevent this amount from rising much higher. As a result, Mexico will have to search for other exports -- agricultural products being one possible choice (Wall St. J., 9-7-82, pp. 1+).

On the surface, expansion of agricultural exports seems the perfect choice for boosting Mexico's foreign earnings. Devaluation of the peso makes exports more attractive, and the government is giving preferential exchange rates to farmers for imports to improve production. But two factors could thwart Mexican agricultural expansion into the United States. First, some agrarian reform laws tend to stifle production. Under the Federal Agrarian Reform Act of 1971, private farms may not exceed 100 hectares of irrigated land (with exceptions for certain crops). Expansion assumes increased acreage (Yates, 1981:177-92). Second, Florida produce growers, whose crops ripen at the same time as those of Mexico's northern commercial farmers, already complain that Mexico dumps produce on the American market. Any increase in exports would surely raise the volume of Florida produce growers' crops for protection (Foreign Agriculture, 11-81, pp. 5+).


V. EDITORIAL

CHANGING ROLE OF THE STATE DEPARTMENT IN SETTING FOREIGN POLICY -
In June the President extended the ban on oil and gas equipment going to
the Soviet Union to include the products of foreign licensees of U.S.
technology. This additional embargo, triggered by continued Russian
involvement in the Polish crisis, was designed to retard completion of
the Soviet-Western European gas pipeline, which some strategists argue
will make Western Europe too dependent on the Soviet Union for energy
supplies. Europeans reacted bitterly against what they view as U.S.
interference with their foreign relations and economic recovery. Partly
as a result of the pipeline controversy, Alexander Haig resigned as
secretary of state; and George Shultz, one of the president's most im-
portant economic advisors outside the government, was nominated for
the post. Shortly thereafter, the president announced the establishment of a
senior interagency group chaired by the treasury secretary to focus more
attention on the interrelationships of economic and foreign policy.

In late July the president extended the U.S.-Soviet grain trade
arrangement for one year, in response to election year political pres-
sure created by U.S. grain surpluses. Unsurprisingly, Europeans charged
the U.S. with hypocrisy for taking a tough stance with the Russians when
European interests were involved, but refusing to impose sanctions harm-
ful to major U.S. trade interests. Despite European criticism, the
president initiated enforcement actions against Dresser-France for vio-
lating the June trade controls and threatened similar sanctions against
a large English engineering company shipping turbines to Russia for the
gas pipeline project. Penalties were restrained, however, by Mr.
Shultz's concern about their impact on European economic recovery.
Taken together, these events reflect the declining significance of U.S.
foreign policy as an instrument for furthering political and ideological
goals in the face of growing interest in domestic and international eco-
nomic policy.

After World War II U.S. foreign policy, controlled by the executive
branch through the Department of State, was preeminent in U.S. external
affairs as the U.S. sought to rebuild Europe and restrict Soviet expan-
sion. This predominance continued through the 1960s, but with substan-
tial erosion as Congress asserted itself to curtail the president's
unilateral actions on overseas matters, especially when military commit-
ments were involved, as they were in Vietnam. During the 1970s actions
of the Organization of Petroleum Exporting Countries (OPEC) made Ameri-
cans aware of the importance of international events to domestic eco-
nomic stability. Dealing with the oil crisis involved broad-scale
domestic action, with Congress a central figure in it. Although some
foreign policy decisions remained prerogatives of the White House and
State Department, the scope of executive initiatives was systematically
reduced by congressional and judicial intervention. Foreign policy
gradually moved to a separate-but-equal status with commercial and eco-
nomic interests, allowing the latter more opportunity to shape U.S.
relations abroad. Late in the seventies even the president's more lim-
ited control over foreign affairs was weakened, as extensive domestic
involvement in ratification of the Panama Canal Treaty demonstrated.

By the end of the 1970s, with U.S. economic supremacy in world
markets declining, foreign policy matters were routinely viewed as an
integral part of a larger national decision-making process concerning
U.S. interests in a world environment. Involved were not just the White
House and State Department and not merely ideological concerns; rather,
other actors included the private business sector and the defense estab-
lishment. The extended debate over adoption of the Export Administra-
tion Act of 1979 typifies this integration process, which severely re-
stricted areas where the president and State Department fully controlled
foreign policy. For over a year the interests of the State Department,
the Defense Department, and private industry collided. The final result
was a national agreement that the White House and State Department could
take unilateral foreign policy and national security actions only on a
limited basis and for a limited time, with ultimate accountability rest-
ing with Congress.

Events since 1979 have made clear the vulnerability of the U.S.
economic position and the reality that it cannot be sustained in the
face of foreign policy actions that materially impair our competitiveness overseas. As worldwide competition intensifies, relations between the U.S. and its traditional allies will be undermined and will no longer provide sufficient justification for foreign policy initiatives inconsistent with our economic interests. The process of making foreign policy accountable to domestic economic interests will be reinforced by President Reagan's preoccupation with domestic economic issues. As major social programs are curtailed to reduce the government's fiscal deficit, the State Department will find it politically untenable to pursue foreign policy solely on the basis of international political considerations when substantial domestic costs are involved. Recent events concerning the Caribbean Basin and Central America demonstrate the State Department's limited freedom of action. No doubt Secretary Haig was aware of the rapid deterioration of his organization's autonomy in matters of foreign policy as he sought unsuccessfully to assert the primacy of the secretary of state in dealing with international issues.

The designation of George Shultz as Haig's successor is further evidence of the process of integrating the interests of foreign policy, commerce, and defense. Mr. Shultz's style is to lead through consensus and consultation, and his predisposition is to view international problems in an economic context. In his last year as one of President Nixon's closest advisors, Mr. Shultz became the central coordinator of international economic policy and sought to link it closely with domestic economic policy. Ten years later, in his new role as head of U.S. foreign policy, he has selected as his deputy secretary Kenneth Dam, previously executive director of the U.S. Council on Economic Policy, which Mr. Shultz chaired during the Nixon administration. Equally important, these two men have coauthored a book unique in its focus on the U.S. budget process and on the president's limited latitude for change in fiscal matters because of contending domestic interest groups.

Even if the foreign policy establishment were to persuade the secretary and deputy secretary to champion the supremacy of foreign policy, important international events are not likely to permit much deviation from a focus on economic issues. Many of our major banking institutions are now at risk throughout the world. The economic crises of Poland, Mexico, Canada, and Argentina, among others, will force the State Department to use much of its authority and resources in coping with these economic issues.

A true test of how far foreign policy has been assimilated into the formulation of economic policy will be the upcoming congressional debate on renewal of the Export Administration Act of 1979. While the Defense Department can be expected to lobby for expanded autonomy in export licensing, the tension over the president's sanctions against the Soviets will materially erode the future ability of the White House or State Department to impose foreign policy sanctions untempered by economic realities. If U.S. and European economic recovery remains weak through the first half of next year, the president will have little room to argue that the State Department and National Security Council can take steps threatening recovery without extensive prior consultation with Congress. Congress, for its part, will not likely condone foreign policy initiatives that in any way jeopardize domestic economic interests.

---- Fredrick W. Huszagh