burden. While such policies seem equitable, in the long run society as a whole suffers an ever-growing aggregate cost of higher taxes and prices and an opportunity cost arising from deferred or indefinitely postponed industrial changes and development.

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

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

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Facts and details of events addressed in Briefings are gathered through a scanning of major daily newspapers and weekly periodicals, which are cited throughout each article. Sources of related policy and disciplinary material appear in a listing following each article. The purpose is to link facts with policy implications and academic points of view in order to present an integrated and in-depth approach to current issues.

Views expressed are not necessarily those of the Rusk Center.
I. FISCAL AND MONETARY POLICY

A. FISCAL - OFF-BUDGET FINANCING

The federal deficit's size and velocity are now symbols of presidential credibility, while their actual economic significance as well as origins are assuming secondary importance in the public forum. Further, disparate estimates about the deficit suggest confusion about its composition, and disagreements within the President's party about the import of tax rates reflect ambivalence concerning linkage between capital spending and taxable income growth. As public preoccupation with the deficit has increased, antecedent and perhaps more substantive concerns about actual federal employment levels and tax burdens ordained by the federal establishment have become eclipsed. Seldom does the electronic and print mass media disclose that budgeted employment embraces only a portion of actual levels, which include consultants and full-time employees reduced to part-time status during the 26th biweekly pay period when employment statistics are reported. Even the transferred burdens of the new federalism, which will soon be recorded as diminished federal expenditures, are seldom assessed in terms of their likelihood to expand state tax loads and thus preserve the effective fiscal burdens of federal enactments. The dubious significance of the formal federal deficit, however, is best realized in light of the little known fact that formal federal expenditures do not embrace in excess of $25 billion of federal activities funded through "off-budget" financing (Wall St. J., 12-15-81, p. 1; Economic Review, Atlanta Federal Reserve, 12-81, p. 43; Federal Reserve Bank of Kansas City Economic Review, 3-81, p. 5; Citibank Economic Letter, 7-80, p. 5).

Continued public debate about the deficit's impact on capital investment behavior, interest rates, and inflation without apparent cognizance of "off-budget" deficits discloses a significant lack of linkage between congressional understanding and public knowledge on a basic issue of world importance. Moreover, the permanent bureaucracy's diligence in building this edifice of off-budget spending suggests that
civil servants have few fiduciary obligations to insure effective disclosure about publicly funded conduct. The dual silence of Congress and the civil service about matters of such public import displays a cynicism about accountability that will erode public confidence in representative government.

Preoccupation with symbols like the deficit by the public at all levels of sophistication provides much insight about the incapacity of mass society and their elected representatives to understand the complexities of large-scale government where stimulus and response may be separated by many years. Several years may intervene between a tax reduction and curtailment of public goods, and seldom is it clear that curtailment relates to a particular round of budget austerity. This lack of time and functional nexus among taxes, expenditures, and services makes public choice on issues like the deficit a largely emotional rather than rational process. Even among large, sophisticated corporations designed especially to cope efficiently with complex relationships between time, money, and human skills, there is evidence that current deficit-related investment conservatism is frequently not the product of an objective analysis of all relevant economic variables impinging directly on the corporation. Presumably, if this conservatism were a rational response to the size and fiscal responsibility of government, awareness of the collective magnitude of on- and off-budget expenditures would prompt a preference for complete liquidity (Bus. Wk., 12-21-81, p. 36; Wall St. J., 12-15-81, p. 1).

The public's inability to assess the significance of the deficit's size and velocity without resort to philosophical emotion is recurrent in history here and abroad largely because their significance has not been scientifically defined. The continued growth of off-budget expenditures compounds the difficulty of assessing the deficit's significance as well as the consequences of massive curtailment of federally funded public goods. Even with a better understanding of deficit spending, there remains almost complete scientific uncertainty about the economics of decentralization of authority and of bifurcated distribution of
public goods at the state and federal levels. Thus, the spirit of federalism may be upon us, but the wisdom to understand the significance of our new state remains elusive (Nuss, 1981, 2-18-82, p. 26).

While the current debate and reaction to the federal deficit will be dictated largely by emotion, close public awareness and scrutiny of off-budget expenditure growth will make it apparent that congressional resolution of the current deficit crisis can bring only temporary relief. It may also disclose that off-budget expenditures are not contemptuous acts of public servants who underestimate the public's intelligence to understand and will to know what is going on in the public sector. Cross-cultural research suggests off-budget financing of public goods is widespread in many industrialized countries with diverse government-citizen relationships. It is conceivable, therefore, that off-budget financing is a pragmatic response to the fact that the public demands more public goods than it is willing consciously to finance. If so, the only durable solution is to make a better calculation of the true cost of public goods across time, elucidate options of private-sector delivery or citizen forebearance, educate the public, and provide meaningful forums for choice.


B. MONETARY - BANKING DEREGULATION

Major structural changes are occurring at a rapid pace in the U.S. financial system. There have been major efforts by large banks to position themselves to take advantage of the perceived future reality of interstate banking. High interest rate levels, combined with technology advances, have created major disintermediation problems for smaller depository institutions, especially savings and loan associations. In the third quarter of 1981, it was estimated that 60% of all savings banks lost money (Economist, 12-18-81, p. 95). In 1981 there was a record of 23 assisted mergers at a total federal assistance cost of $977 million, which the director of the U.S. Federal Savings and Loan Insurance Corporation (FSLIC) seems as being eclipsed in 1982 (Kroll St. J., 1-18-82, p. 4). Interstate banking effectively arrived on January 1 as a result of the federally arranged merger of Citizens Savings and Loan of California with West Side Federal of New York and Washington Savings and Loan of Miami, relaunched as First Nationwide Savings and Loan (Economist, 12-25-81, p. 76). In this case, customers will have a common account number and will be able to make deposits in one state and withdraw from another. Another example occurred when the FSLIC helped Home Savings of America (the nation's largest savings and loan with assets of $14 billion) acquire five Texas thrifts in financial difficulty (Kroll St. J., 1-18-82, p. 4).

The compartmentalized banking system in the U.S. is being further eroded by the moves of non-depository institutions into a wide range of financial services. In June 1981 Prudential, the country's largest insurance company, and American Express both acquired brokerage houses. The money market funds of firms like Merrill Lynch, while not officially seen as demand deposits, have all the same advantages as well as high interest yields. Finally, the involvement of firms like Sears, Roebuck and Co. into the wider financial service arena illustrates how rapidly traditional financial market separation has been breaking down. The advantage of these financial hybrids is that while they duplicate many
traditional banking practices, they circumvent many regulatory provisions. Reserve requirements, geographic limits, and interest rate ceilings do not apply. As might be expected, larger traditional banking institutions have viewed these developments with considerable alarm (Editorial Research Reports, 8-7-81, p. 575; Euromoney, 10-81, p. 54).

The issue of greater interstate banking is a volatile one. Advocates believe the resultant increase in competition should bring local communities a wider range of services at cheaper costs (Wall St. J., 8-21-81, p. 39). As many smaller in-state banks under a profit squeeze and a shortage of equity capital have discovered, there are considerable economies of scale available via merger into larger units (Wall St. J., 10-7-81, p. 56). Rapid advancement in electronic technology has meant that physical presence and proximity of traditional banking offices have become less important. Regional and national automatic teller machine networks, together with rapid development of electronic funds transfer systems, have both served to improve efficiencies in financial transactions (Nat'l. J., 11-21-81, p. 205; Bus. Wk., 1-18-82, p. 70). Many smaller banks feel that local communities will witness a drain of funds should interstate banking become a reality. There is little doubt that a more integrated national banking system will feature a smaller number of hybrid financial institutions providing a more comprehensive range of financial services. One authority estimates that three-quarters of the present banking institutions will disappear through consolidation as deregulation removes geographic and functional divisions (Editorial Research Reports, 8-7-81, p. 575).

Dynamic changes in the industry have been moving ahead so rapidly that regulatory agencies have had to grapple with the problems of the Depository Institutions' Competitive Edge have been placed on the agenda (Nat'l. J., 11-21-81, p. 205). While the Depository Institutions Deregulation and Monetary Control Act of 1980 has done much to liberalize the market, further initiatives can be expected. With continued pressure on thrifts, some new federal regulators permitting commercial banks to acquire savings and loans (Wall St. J., 1-19-82, p. 4). The National Association of Mutual Savings Banks believes that deregulation thus far has done little to assist a change in the asset composition of the thrifts' earning assets (Economist, 12-19-81, p. 59). Following pressure from such groups, the Senate has a bill (S1220) under study in the banking committee to give thrifts lending powers more closely aligned to those of commercial banks (Nat'l. J., 12-19-81, p. 2253). Clearly, if the present pace of change continues, financial institutions making up the U.S. financial system will become harder to distinguish from one another.


II. INTERNATIONAL ARRANGEMENTS

A. ECONOMIC/COMMERCIAL – STRATEGIC METALS AVAILABILITY

Few areas of national policy are subject to quite such a wide range of conflicting opinion and governmental initiative as the availability of strategic mineral resources. The U.S. lacks a coherent minerals policy that coordinates the variety of issues necessary to ensure adequate, predictable supplies of raw materials. A recent Government Accounting Office report on the Strategic Petroleum Reserve, while noting a record replacement of 292,000 barrels a day in 1981, also noted that current fill plans cannot be sustained because of a lack of fill space (N.Y. Times, 1-18-82, p. D2). Under legislation proposed by Senator Harrison Schmitt (R-N.M., New Mexico), a five-member strategic stockpile
commission would replace current management by the Federal Emergency Management Agency and the General Services Administration (Aviation Wk., and Space Tech., 1-4-82, p. 18). Senator James A. McClure (R-Idaho) also has put forward a stockpile reform bill establishing a stockpile formula based on the degree of foreign dependence. While both bills will be assessed by the Senate Armed Services Committee during 1982, they recognize and seek to redress stockpile goal inconsistencies and mismanagement.

All western industrialized nations are heavily dependent upon imported minerals, and their consumption has grown rapidly in the past two decades. At present, the United States consumes about 30% of the world's mineral production. While there is general agreement that in some resource areas the U.S. is unduly dependent on foreign sources, there are considerably divergent perspectives. Some advocate dependence with vulnerability as a U.S. economic, political, and strategic decision might be unduly influenced by arbitrary actions of foreign suppliers. These opinions, mostly concentrated among those concerned with defense matters, see the issue as a resource war with the U.S.S.R. (Ch. Sci. Mon., 1-11-82, p. 12). A second group views this opinion as too simplistic and advocates a more holistic policy approach to mineral scarcities, noting that Europe (75% of raw materials imported) and Japan (90% of raw materials imported) see mineral security in terms of cooperative development with resource suppliers rather than in terms of containment diplomacy to deter Soviet geopolitical objectives. This viewpoint stems from a realization that materials dependency is just an economic manifestation of the comparative advantage of extracting minerals from the most readily accessible sources.

Domestic environmental groups in the U.S. represent another interest group. Many express suspicion that the concept of a "resource war" is being used to justify a relaxation of pollution standards and mining regulations in wilderness areas. They cite particular concern over a bill recently introduced by Representative James Samuels (D-Nevada), chairman of the mines and mining subcommittee, that would extend the deadline for mineral exploration in wilderness areas from 1985-84 to 1983-84 (Ch. Sci. Mon., 1-12-82, p. 12). A final perspective centers on the link between mineral exporting countries. With economic growth as a prime objective, these countries are interested in stable, long-term prices and in moving their extractive industries into more advanced processing and refinement. As such, we witness continual attempts to cartelize world trade in various minerals and increasing regulation of mining company activities.

A major complication that clouds the issue is the extent of known reserves. Pessimists point to finite known reserves and extrapolate those figures, given known demand, to portray catastrophic scarcities. What is often overlooked is the notion that ore reserve tonnages are dynamic figures, which are very dependent upon market prices and prevailing technology. Reserves fluctuate as prices change and improvements in mining technology continue to reduce extractive costs. Furthermore, it must be remembered that commercial secrecy restricts ready knowledge of reserve magnitudes. Nickel reserves have risen from 14 million tons to 75 million tons between 1950 and 1976, and copper reserves have tripled in the past 20 years (Futures, 12-11-81, p. 513). Clearly, economic availability can render distorted projections in the short run, many of which are made less reliable by political and natural uncertainties and strife. But longer-term notions of real scarcity are not so readily identifiable. The price of coal, oil, and electricity relative to average hourly factory wages has followed a steady decline throughout the past six decades (Atlantic Monthly, 6-81, p. 35).

What is necessary to confront U.S. raw material problems is to adopt a coherent policy that differentiates, more systematically, between real scarcities and those occasioned by administered prices and exercise of market power. Conflicting interests are numerous, but as so often occurs, lack of a coordinated policy approach ensures distortions that aggravate rather than ameliorate the problems. For example, the U.S. economic regulatory environment and tax structure favor using iron ore rather than expansion of scrap and recycling facilities (Ch. Sci.


B. POLITICAL/MILITARY - FINNISH POLITICS IN THE 1980s

The word "Finlandization" entered the vocabulary of international political discourse in the early 1960s and encapsulates a more or less denigrating description of Finland's relations to the Soviet Union. Finland, a Nordic country of four million people and a 650-mile common border with the U.S.S.R., is thought by many to be subservient to the Soviets, lacking any significant influence in its foreign and domestic policy. Recent political developments in Finland and elsewhere in the Baltic region shed light on the accuracy of this assessment of Finland's neutrality.

After being president of Finland since 1956, in 1981 Urho Kekkonen of the Center Party sought retirement from office at age 81 because of illness, necessitating the election of a replacement. In an indirect election, Mauno Koivisto, a Social Democrat, was elected president by the electoral college after receiving almost two and one-half times the popular vote of his nearest challenger, a conservative (N.Y. Times, 1-19-82, p. A3; 1-21-82, p. A2; Le Monde, 1-20-82, p. 4). During the campaign, martial law was declared in Poland to disintegrate Solidarity, the free trade union movement (Ch. Sci. Mon., 12-14-81, p. 1). Three weeks before the Polish crisis began, a Soviet submarine carrying nuclear-tipped torpedoes became stranded off the southeastern coast of Sweden in a military testing area (N.Y. Times, 11-10-81, p. 10; Ch. Sci. Mon., 11-5-81, p. 11).

The chief concern of Finnish foreign policy is the perennial Soviet fear of invasion across any of its long borders that are impossible to defend. By the terms of the Treaty of Friendship, Cooperation, and Mutual Assistance of 1948 between the two states, Finland is obliged to defend itself fully against attacks across its non-Soviet borders, all of which are assumed to continue the Soviet Union; the Soviet Union in turn will make forces available to assist in Finland's self-defense. Finland's neutrality is also acknowledged. Although it is not stated in the treaty, Finland has had to satisfy the Soviet Union that it is prepared to defend itself and to lend diplomatic support to Soviet efforts to preserve its security. Finland's trade with the Soviets is based on an exchange of oil and gas from the Soviets—80% of its Soviet imports are fuel—for manufactured goods (Economist Survey, 9-29-79, p. 9). The Soviets apparently find this arrangement to be more economical than to attempt to manufacture the goods they import from Finland on the same scale.

A stable environment has been a supreme value for Finland, in forming both foreign and domestic policy (Economist, 1-30-82, pp. 14, 34). Since the Finns believe that stability is served by cultivating good relations with both the East and West, their foreign policy's central
theme is balance and reciprocity. While Finland is neutral within the context of Soviet security requirements, 30% of its exports are to the European Communities; and in 1977 it purchased 37 Hawk jets from England (Economist Survey, 9-29-79, p. 19). While it has a free-trade treaty with the European Communities, it has observer status on the Council for Mutual Economic Assistance. Likewise, Helsinki, the capital, was the site of negotiations to institutionalize detente. Finland's perception of Nordic stability involves the interconnection of proposals to neutralize the Soviet-Norwegian border, to create a nuclear-free zone in northern Europe, and to further regional economic cooperation, all of which would involve a role for the Soviet Union (Int'l Affairs 57(2):284, Spring 1981). This policy has been at least temporarily discredited following the Soviet submarine incident in Sweden.

Domestically, Finland operates on the rarely spoken assumption that it must heed Soviet geopolitical interests and that offending the Soviets overtly must be avoided. Despite this constraint, Finland is indeed a western country. Though it has a unique and insulated culture and language, it is western in political orientation and culture, possessing a vigorous parliamentary political system and a market economy. Such a consensus on the value of a stable position for Finland in the world is apparently responsible for the latitude of expression the Finns displayed in tolerating and even welcoming the center party's rejection of Ahl Korjolainen, the Soviet's choice, in the party's presidential nomination (Economist, 12-5-81, p. 55). The West European trend of ousting established leaders and parties seems to be a factor in the election of Kolvisto, who, as a social democrat and former governor of the Bank of Finland favoring tight-money policies, was popularly perceived to be above interparty conflict and is being counted upon to be less accommodating to the Soviets than Kekkonen (Wall St. J., 1-29-82, p. 26: 10-21-81, p. 50). The voter participation rate in this election was 88% (N.Y. Times, 1-19-82, p. A3). Additionally, Finland's identity as a Nordic country has been transformed over the past 20 years by its membership in the Nordic Council. For instance, half of the foreign capital in Finland is Swedish (Economist Survey, 9-29-79, p. 101).

Although changes of government are frequent because four parties vie for coalition roles in a proportional representation system of election, foreign policy is consistent because it is formulated by the president, elected every six years. The Finnish government, as it has done in regard to other issues, has declined to comment on the Polish situation because, the government maintains, it does not affect Finland directly; Finland's most significant relationship with Poland is that it imports a substantial amount of Polish coal. Finland possesses enough immediate maneuverability with the Soviet Union to devote major attention to other problems, such as the ramifications of it's evolving Scandinavian identity. Finnish membership in the Nordic free-labor market has enabled 200,000 Finns to emigrate to Sweden, raising the minds of many thoughtful Finns the possibility that the Finnish national base, which provides the bulwark of independence against the Soviet Union, might be eroded (Foreign Affairs 58(5):1034-44, Summer 1980).


C. SOCIAL/CULTURAL - POLISH EMIGRATION TO SOUTH AFRICA

Blacks in South Africa are angered by the government's encouragement of Poles to emigrate to South Africa following the imposition of martial law in Poland. Large state-owned firms have been actively recruiting skilled workers from the tens of thousands of Poles who remained outside Poland after martial law was imposed in December 1981. South Africa is willing to relax its concern for communist infiltration to acquire the skilled workers essential for maintaining the
continuously expanding economy. This expansion is part of the government's attempt to decrease the dependence of the economy on the fluctuating fortunes of the gold market. From a high of US$800 per ounce in 1980, the gold price fell to US$369 in January 1982 ( Chr. Sci. Mon., 1-20-82, p. 92). Seeking asylum, Poles are willing to accept immigration laws requiring assimilation into a very different culture and the dangers of political instability. Blacks claim that the Polish immigrants are treated preferentially and that money spent on training them should be spent on training blacks (Mail St. J., 1-19-82, p. 29; Economist, 1-9-82, p. 56).

Immigrant workers, skilled whites and unskilled blacks have been some of the major forces behind the impressive economic growth in South Africa. The average growth rate, which was 5.7% annually during the 1960s and dropped to only 4% during the mild recession of 1968-72, had risen to 7% in 1980. The South African government has supported a high rate of economic development because of the vital role of the economy in the external and internal defense strategy. The economic dependence of the neighboring black countries compels political or military action by them against South Africa. Increased production of consumer goods and increased employment are essential to controlling the black population within the country (Economist Survey, 6-21-80, p. 10).

Blacks view the immigration of skilled whites as another sign of the continuation of apartheid policies by a government that has promised reform. The current shortage of skilled labor, said to be the major obstacle to future economic expansion, is due mainly to the lack of skilled blacks. The education and training of blacks has been neglected, and they have been excluded from white training schools and certain jobs. Although the government is making efforts to educate blacks (the 1980 budget provided for a 5% increase for black education and training), they are overshadowed by the effects of restrictive immigration laws and pass laws that severely limit black mobility within the country (Economist, 9-19-81, p. 9). These restrict the residence, mobility, and ultimately, the employment of blacks in white areas. Another major point of contention is the disparity between the wages of blacks and whites. The gap is still large, although from 1970-76 black earnings increased 51.5% while white earnings increased only 3.8% (Economist Survey, 6-21-80, p. 13).

Supporters of new apartheid policies (verkomptes) have thwarted efforts by Prime Minister P. W. Botha, moderate Afrikaners (verligtes), and English progressives to modify these laws and other measures impeding the advancement and integration of blacks. Afrikaners opposing Mr. Botha and the ruling National Party fear fortelling to blacks the economic and political power they only recently took from the English. The nationalist party must respond to the demands of the more radical Afrikaners because of their political and economic power (Newsw., 12-7-81, p. 58).

Hardline Afrikaners and progressives must reach some form of compromise to maintain a nation that continues to defy what seems to be inevitable: the relinquishing of control to the black majority. Step-gag measures such as the immigration of skilled white workers can only temporarily alleviate the labor shortage, postpone necessary reforms, and antagonize blacks. The economy must depend more on the purchasing power and productive capacity of blacks and less on gold exports. For the present South Africa is prospering without these changes. For the future the question is not if, but how and when, the changes will occur.

III. DOMESTIC ISSUES

A. VALUES - UAW-GM TALKS

After a year of pressure from management, the United Auto Workers (UAW) agreed to reopen its contract with General Motors. Despite the failure of the two parties to reach an agreement, these negotiations were significant. Not since 1953, and then at the instigation of the UAW, has an auto industry contract been reopened (N.Y. Times, 1-24-82, p. 3, 12). Not since World War II has the UAW reached separate agreements with the "Big Three". The nature of the issues discussed was also unique. Talks focused on the transfer of wage and benefit rollbacks into consumer price reductions intended to stimulate demand. An independent financial agency representing the union was to have monitored this transfer. The UAW seemed willing to trade some of its economic gains of past decades in return for a pay in prices, greater access to corporate financial data, and job security.

Signs of a growing interest in non-wage issues are evident elsewhere. Last year, in negotiations with Chrysler, the UAW agreed to over $1 billion in wage and benefit concessions in return for a UAW seat on the board of directors, profit sharing, a larger say in plant closings, and access to financial data (N.Y. Times, 1-24-81, p. 3; Wall St. J., 1-1-82, p. 10). Talks with Ford will focus on a management proposal to increase job security in return for greater flexibility in realigning workers (N.Y. Times, 1-24-82, p. 12). This shift to greater labor input in high-level decision making has been preceded at the rank-and-file level by the growth of "team management" programs (Bus. Wk., 5-11-81, p. 64).

Do these events presage an era of cooperation in American industrial relations? Is American labor exhibiting a shift to post-industrial values by placing a higher priority on participation in decision making at the workplace than on material rewards? Are American workers following the examples of their counterparts in Sweden, Japan, and Germany, where worker participation and co-determination are established practices? If so, can American society expect a similarly high level of economic performance? Other factors underlying current contract negotiations caution against such optimistic extrapolations. Some observers maintain that organized labor's more conciliatory posture is simply a desperate attempt to preserve its existence in the face of severe economic and political pressures, not an effort to lead the way to new social goals (Wall St. J., 1-19-81, p. 1; Bus. Wk., 2-21-81, p. 82).

Union strength is unquestionably eroding. UAW membership declined from 1.5 to 1.2 million between 1979 and 1981 (N.Y. Times, 1-24-82, p. 3). Recent strikes and foreign competition have led to high unemployment levels in the auto industry, as foreign manufacturers expand their share of the stagnating U.S. market and U.S. manufacturers turn increasingly to production in lower-wage countries. The growing prevalence of the open shop in the service sector and industrial movement to the Sunbelt have also contributed to organized labor's declining proportion of the work force.

Labor's political environment is far less friendly. Decertification, a trend which began in the early '70s and is likely to have negative effects on labor. After relaxing restrictions on corporate political action committees (PACs), business spending for PACs quickly outstripped labor's long-held lead (Wall St. J., 4-8-81, p. 6). Negotiators for the traditionally powerful Teamsters Union recently signed a three-year contract freezing wages at current levels and allowing less frequent cost-of-living adjustments (N.Y. Times, 1-24-82, p. 22, 11). Decertification of the trucking industry was a major factor underlying this unusually weak Teamsters position: Wage increases can no longer be translated into higher rates as they could during the decades of regulation, and the industry is in a state of intense competition with newcomers, largely non-unionized.

President Reagan's handling of the Air Traffic Controllers strike, legislative proposals to control corruption in unions, and controversial
appointments to key labor posts are recent examples of a changed milieu. New policies affecting the Occupational Safety and Health Administration, such as budget cuts, unfilled vacancies, and recent proposals for self-enforcement of safety regulations in many plants and businesses, imply that labor may be losing some of its chief non-material gains of the past decade (N.Y. Times, 1-24-82, p. 69).

Even if trends in recent labor negotiations are less indicative of internal value changes than of external economic and political pressures, they nonetheless have serious implications regarding the quality of life. While greater worker participation at various levels of management may appear to be a positive trend, especially when balanced by lower wage levels, the specific forms which such moves have taken raise serious questions for both workers and American society as a whole. For example, a move away from industry-wide negotiations poses potential dangers of fragmentation. In countries such as Italy and Great Britain with decentralized union structures, work stoppages by single small unions have frequently paralyzed society. From the workers’ viewpoint, further erosion of union power, implicit in the move away from industry-wide bargaining, would undermine their chief vehicle of participation—united representation in the collective bargaining process.

Another question concerns greater worker say in management policies, such as prices. Tying wage reductions to GM price cuts may not have been wise. Price reductions following several years of rebates may not have been sufficient to increase demand; inflation, high interest rates, and low quality are other factors keeping sales down (Wall St. J., 1-13-82, p. 3). Moreover, wage and benefit concessions appear to have been short-run tactics that neglected the industry’s long-run problem—declining comparative advantage. It might have been more advantageous for both labor and management to tie current wage concessions to investment improvements in capital stock could increase labor productivity and thereby lessen the pressures of America’s wage disadvantage; diversion of profits into new operations such as robot manufacturing might move the auto industry into an area of increasing comparative advantage. Without greater worker involvement at the highest levels of management, such a long-term perspective is unlikely to develop. However, co-determination is probably limited by American antitrust laws (Wall St. J., 3-3-81, p. 22). Moreover, a recent analysis of Germany’s experience with worker representatives on boards of directors in basic industries indicates that it may work well only in good times. For example, in the steel industry it failed not only to prevent a major strike but also to reduce productivity as an excess in world supplies developed (Harvard J. of Legislation 14(2):947-1012, 1977).

Finally, the UAW-GM talks raise the question of worker democracy within the union. Union leaders failed to garner adequate support within the organization on behalf of concessions before talks began. Dissidents refused to be ignored and apparently were influential in the breakdown of talks, which were underway in the final days by the union’s new insistence on the right to reopen negotiations upon an arithmetic in sales. In the eyes of some union members and outside observers, the UAW may have compromised its traditionally high standards of internal democracy (Wall St. J., 1-27-82, p. 4; 1-29-82, p. 52).

The UAW and other American labor unions face a perplexing problem. Their constituents seem more interested in maintaining a high material standard of living than in power adjustments or other non-material dimensions of the quality of life. Opposition to bargaining wages for a greater voice in corporate decision making is strong not only in the UAW but also, for example, in the United Rubber Workers (N.Y. Times, 1-24-82, p. 3; Wall St. J., 1-25-82, p. 6; 1-29-82, p. 31). Granted, many blue-collar workers, by virtue of their reluctance to transfer to industries and regions with more growth potential, have demonstrated the high priority they assign to non-material values such as community and ethnicity. However, the cost of this value choice has been offset by substantial unemployment benefits and government assistance. As the strain on local and state governments grows and as businesses become less able to sustain high labor costs in an increasingly international economy,
union leaders will find themselves with few bargaining chips unless they can alter the preferences of their followers.


B. HUMAN DYNAMICS - FRANCE AND THE U.S.: POLICY PRESSURES

The difficulty of formulating consistent policy transcends ideological boundaries. This can be illustrated by considering the challenges faced by Republican President Ronald Reagan and French Socialist President Francois Mitterrand. On January 16, the French Constitutional Council declared several sections of the government’s plan to nationalize major banks, holding companies, and industrial groups to be unconstitutional because the scope of the bank industry was discriminately small and because certain indemnities were not large enough (La Monde, 1-19-82, p. 1; Commerce, 1-12-82, p. 1A; 1-18-82, p. 1A). A day after the Council’s ruling four National Assembly by-elections were all won by right-of-center candidates (La Monde, 1-19-82, p. 1; Economist, 1-23-82, p. 34). On January 26, President Reagan in his State of the Union address proposed a massive transfer of programs from the federal government to the states (TImes, 2-8-82, p. 16; N.Y. Times, 1-27-82, p. 1).

Though Reagan’s and Mitterrand’s foreign policy goals differ, the nature of their opposition seems similar. Reagan is committed to reviving the role of the states in governance, to reducing the government’s role in the economy, and to strengthening the national defense. In seeking to balance the budget, cut taxes, reduce spending, and finance an unprecedented defense effort, he must reckon with the possibility that these cannot be achieved immediately or simultaneously due to liberal pressure stemming from social welfare groups, urban groups, civil rights groups, and environmentalists. But he must also manage the coalition which elected him, which includes budget balancers, tax cutters, long-term efficiency proponents, special interests which demand subsidies and import protection, and hardline anti-communists. Mitterrand is committed to an enlargement of government to encompass the nationalization of important sectors in order to combat inflation and unemployment while realizing a decades-old socialist vision of a paternal state, an anti-nationalistic decentralization of central authority, and a foreign policy oriented toward the problems of developing nations. His support consists of both wings of a disciplined socialist party: socialists and communists, the communist party he coopted by asking it to join the government, labor unions affiliated with the socialists and communists, provincial areas, and a substantial though unreliable number of citizens who voted for Mitterrand because they were dissatisfied with republican Giscard D’Estaing’s presidency. Obstacles to the success of his policies are businesses, banks and media, which target for nationalization, likely to be: recalcitrant members of the national bureaucracy; and the institutional momentum of the Gaullist constitution.

Reagan is finding it more difficult than he originally anticipated to remove government from the private sector, while Mitterrand, judging from the ruling of the Constitutional Council—a body with judicial prestige but a political character—and the election results, might face a conservative backlash before his nationalization plans can be passed by parliament and implemented (N.Y. Times, 1-25-82, p. 8). Both presidents are taking measures to reconcile themselves to their opposition while simultaneously confronting it. While Reagan announced in his
State of the Union address that the federal government would assume responsibility for the Medicaid programs in FY 1984, contrary to earlier proposals to devolve this responsibility permanently to the states, his proposal for a "new federalism" is an unequivocally bold challenge to the status quo (Time, 2-6-82, p. 17). Likewise, while almost immediately after the Constitutional Council's ruling the French prime minister introduced new nationalization legislation that conformed to the requirements imposed by the judgment, the socialist party announced that it advocated the creation of a supreme court whose powers would supersedes those of the Constitutional Council and would represent "the popular sovereignty that is the base of democracy." (Le Monde, 1-22-82, p. 7; 1-25-82, p. 1; Economist, 1-23-82, p. 69; Newsweek, 2-1-82, p. 49).

Short-term pressures force both Reagan and Mitterand to consider-taking measures that will alter their programs. While Reagan must display some concrete successes in combating inflation and unemployment by the congressional elections in November (Chri. Sci. Mon., 1-29-82, p. 3), Mitterand must tailor his policies to satisfy voters in regional elections to be held in March, thus risking the success of nationalization for the need to prepare a broadly appealing socialist platform. Domestic pressures on both leaders seek to define foreign policy priorities that could upset their agendas. For Reagan, the desire to cut government spending by reducing social expenditures while increasing the defense budget could be a policy that liberals will not tolerate, and pressures from non-competitive industries for protection will constantly be forthcoming. For Mitterand, the social consensus resting on a carefully crafted ideological mix of moderate socialism and foreign policy pragmatism has thus far enabled him to pursue a balance-of-power policy for East-West relations and a concord for the needs of developing countries (Chri. Sci. Mon., 12-6-81, p. 16; 12-11-81, p. 14). This policy could be upset by a swing leftward because of the spreading appeal of the West European pacifist and ecological movement or rightward by the deterioration of events in Poland (Foreign Affairs 60(2):355-6, Winter 1981/82).

On January 8 the Justice Department reached settlement agreements in its separate antitrust actions against AT&T and IBM. These settlements were pressured by earlier Justice Department speeches suggesting more subdued application of antitrust laws in industries where international competition is vigorous; by Canadian and Japanese decisions to target their electronic industries for rapid growth; and by European threats to curtail indirectly expansion of U.S. electronic services in Europe. Coincidentally, computer and electronic delivery services grew substantially due to domestic satellite expansion, new cable offerings, and an avalanche of new, low-cost computer terminals (Bis., 1-18-82, p. 32; 12-14-81, p. 19; Wall St. J., 8-26-81, p. 16; Economist, 1-16-82, pp. 13, 10, 68, 72, 77).

In light of these events, the antitrust settlement agreements reflect more than legalistic assessments of courtroom success and enforcement expenditures. They are public acknowledgments that the world is entering an electronic communications revolution where the U.S. can remain the market leader only if its major firms commence service offerings before foreign restrictions and other communications development reach maturity. While many smaller companies now market equipment and communications services supporting this revolution, they do not have the...
size and integration to deploy rapidly full-scale national and international systems of electronic services. Only large integrated enterprises providing end-to-end service can curb massive foreign penetration of U.S. markets and surmount barriers to the export of U.S. equipment and services to foreign markets (Wall St. J., 1-20-82, p. 31; Bus. Wk., 1-11-82, pp. 50, 70).

For several years AT&T has sought regulatory authorization to test market a variety of home data processing and information distribution services. Resistance of newspapers and other electronic service suppliers has precluded implementation. At the same time, IBM stayed aloof from the mass-consumer computer market, although spectacular growth in small personal computers has since prompted their entry into this market. The recent settlements, however, have been followed by IBM's re-entry into data communications and AT&T's preparation for providing home telephone data processing after it has spun off its local operating subsidiaries (Bus. Wk., 12-14-81, p. 29).

The proliferation of low-cost information processing equipment, inexpensive operating software, and on-line data services has stimulated public interest in broad-scale use of electronic data bases from home and office. Unfortunately, this explosion of opportunity has the potential for retarding decisions due to confusion over equipment and services. Presumably some consolidation of service and equipment offerings by market makers will initiate the discipline needed for broad-scale use. The beneficial consequences can be far reaching, but not without some sacrifice of efficiency.

While proliferation of low-cost, "smart" electronic terminals creates theoretic potential for mass distribution of information tailored to individual customer needs, the combination of design diversity and internal complexity makes information exchanges nearly impossible without coordination on software design and operating protocols. The current competitive environment, however, is unlikely to embrace such coordination in the absence of regulation or unmistakable leadership by an entity capable of providing end-to-end services at reasonable cost. Although regulation is unlikely given the existing political climate, leadership is probable as AT&T and IBM obtain legal freedom to expand aggressively in the domestic consumer markets. Both have the necessary requisites of enormous internal capital, technical and manufacturing expertise, and mass marketing and service skills. Both have indicated their intentions to enter the mass consumer market. The presence of one or both in U.S. and foreign markets would set a high performance standard and inhibit foreign penetration.

Once the concept of end-to-end service is established and the value of its presence is understood by consumers, small purveyors of equipment and telecommunications services will likely enter and reduce the cost as well as expand the breadth of service offerings. Moreover, the growth of software compatibility will facilitate customer migration among equipment makers in search of efficient switches between machine capacity and user needs. The resulting mass usage and compatibility among equipment types can set the stage for a subsidiary revolution of home work stations and personalized education outside traditional classrooms. Such a trend toward "cottage industries" is likely to be substantial in many service industries. Should this occur, some pressing problems of urbanization such as transportation and downtown parking could moderate without the costly infrastructure investments now anticipated.

While the AT&T and IBM settlements may stimulate the above changes with resulting benefits, several negative consequences could appear over time. Monopoly practices could appear in the absence of rigorous antitrust enforcement by private entities and the government. Equally important, the fragmentation of AT&T's current corporate structure could preclude systematic rotation of management personnel among operating, research, and manufacturing functions to ensure an integrated management perspective. While it is theoretically possible to achieve such a perspective through outside recruitment and training, the size and complexity of the national telecommunications system raises management problems
that are unique and have been resolved efficiently to date only by heavy reliance upon elaborate personnel rotation strategies.


V. NORTH AMERICA

BILATERAL TRENDS IN CANADIAN RELATIONS - In mid-January Canadian Prime Minister Trudeau visited Mexico for talks with Mexican President Portillo on political and economic issues. A primary topic was Canada's bid to build a Mexican nuclear reactor. Just before departing for this trip Trudeau announced a major cabinet reorganization that was intended to increase the importance of economics in Canadian foreign policy and the federal government's role in regional economic development. Does this combination of events signify a move away from close U.S.-Canadian trade and investment patterns and a forging of closer economic ties between Canada and Mexico, whose views regarding the public sector's role in the marketplace and economic nationalism Canada is increasingly coming to embrace?

To answer that question or analyze the implications of such a trend, it is necessary to consider the background of these events. Two critical factors underlying the latter development are Canada's goals of diversifying its economic structure away from its primary sector and diversifying its foreign markets away from extreme dependence on the United States. Because exports comprise nearly 25% of Canada's GNP, (Wall St. J., 1-13-82, p. 2), its close economic ties with the U.S. make it vulnerable to American economic vicissitudes.

Increased Canadian trade with Mexico offers many advantages. Its large population offers a potential market; its location is sufficiently close to retain some of the transportation cost and other advantages enjoyed by trade with the United States; Mexican ties might open doors for Canada in other developing nations with whom it has less symbolic political affiliation than does Mexico; and the complementarity of certain economic sectors could lead to fruitful exchanges (Cdn. Sci. Mon., 1-25-82, p. 3). For instance, if Canada's bid for the nuclear project is accepted, this high technology industry will receive a substantial boost not only in the short run, but also in the longer term since Mexico will probably rely on Canada as a source of heavy water. Meanwhile, Canada hopes to gain access to Mexican oil in order to supply the Atlantic provinces, whose purchases of OPEC oil are currently being subsidized indirectly by richer provinces, such as Alberta, through federal taxes and controls that keep domestic prices below world levels.

One condition for meeting these diversification goals is the ascendance of economic nationalism over economic regionalism. During the 1970s provinces began to pursue their own discretionary policies to foster intraprovincial economic growth and diversification. A variety of incentives and disincentives, such as subsidies, tariffs, procurement preferences, local content product requirements, and even appropriation, have often worked at cross purposes to federal fiscal policies. Current regional equalization programs have been criticized for their tendency to maintain the status quo through transfer payments rather than induce structural economic adjustments.

Trudeau's reorganization is likely to address these problems. All trade matters will now be handled by the Department of External Affairs, thereby placing a high priority on national economic goals and orienting them to an international context. This move toward increased coordination of economic policy at the highest diplomatic level is well-timed
to Mexican trade relations, which are far more formal and high level than Canadian-American relations, the latter being marked by extensive informal contacts encompassing representatives of both public and private sectors, as well as national, territorial, and local levels. Such government-to-government ties will probably serve Canada well if it plans to use its Mexican connection as an entrée into better trade relations with less developed countries in which the public sector tends to assume a large economic role. A hybrid clearinghouse agency, the Ministry of State for Economic and Regional Development (MSERD), will increase the federal government’s role in regional development. Existing federal-provincial arrangements are to be allowed to lapse, and MSERD representatives will set up offices in each province, a development to which many provincial officials have already voiced their objections (Globe and Mail, 1-15-82, pp. 1, B; 1-15-82, p. 10).


V. EDITORIAL

THE FEDERAL COURTS IN A CHANGING WORLD - The federal court system has several unique responsibilities to U.S. residents. It ensures that the process for resolving disputes in government forums reflects evolving concepts of fairness and that action or inaction by executive agencies is authorized by legislation. Equally important, federal courts help maintain an isometric relationship between administrative and political powers and thus reduce the potential for representatives of the public to suppress improperly the rights and interests of the public.

Civil strife, national security, federalism, and illegal use of delegated power have all tested the court’s capacity to execute its ultimate functions. For the most part, the federal judiciary has satisfactorily discharged its obligations. Recently, however, erosion of meaningful distinctions between domestic and international environments as regards political, economic, and social affairs has challenged the court’s intellectual capacity to understand the full range of issues involved and to craft judicial responses that deal effectively with long- and short-term realities simultaneously. Inadequate judicial perceptions of complex economic and political issues, followed by defective decisions from a governance standpoint, can erode the country’s effectiveness in a highly competitive world environment, prompting executive and legislative officials to reach governance decisions beyond judicial oversight.

Public skepticism about the court’s capacity to handle cases involving complex economic, organizational, and political issues is most recently evident in the Justice Department’s settlement of the IBM and AT&T antitrust cases. The manner in which the settlements were designed and announced made clear the government’s intent to remove the court from the analytical and decision process. It is alleged that the court was pursuing a decision process lacking perspective on the relative importance of diverse issues as well as on the time and resources appropriate for their resolution. In a different but related area, the Justice Department was moving away from court-formulated theories of anti-competitive mergers and toward internal guidelines that give considerable credence to the potential significance of foreign competition in domestic markets. Congress, in the context of the trading company bill, is currently in the final phases of statutorily amending court-made antitrust jurisprudence concerning methods of U.S. enterprise competition in foreign markets.
The complexity of future economic and political affairs will no doubt severely test the court's capacity to manage and guide adversarial conflict in a manner consistent with U.S. interests in a global context. Fortunately, recent appointments to the Federal Circuit Court of Appeals have endowed the judiciary with specialized intellect to deal competently with such conflict. Professors Posner, Winter, and Park from the Universities of Chicago and Yale, nominated for the 7th, 2nd and D.C. Circuits, have distinguished records of practice and scholarship in areas central to the resolution of complex national economic and political issues. Their ideas about operation of law in a macro context have guided formation of legislative and executive branch policy and have stimulated lawyer consciousness about the long-term consequences of their conduct.

While appointments like these give promise regarding the federal courts' future importance in national governance, more is needed. The judicial system as a whole, including its socialization and training facilities in law schools, must make broader disciplinary understanding of human and institutional behavior a requisite for analysis and decision concerning significant governance issues, especially those with international implications. Conversely, the federal judiciary cannot allow others or itself to resolve these issues by resort to political or economic ideology untested by human experience. It must, however, remain sensitive to the need for theology in giving direction to human affairs not competently guided alone by existing behavioral knowledge. The courts, lacking the physical power for shaping behavior, must achieve leadership through a proper blend of rationality and faith in the ultimate virtues of procedural fairness and equitable goals.


