opportunities for state intervention into family life. By proposing a contract concept of abuse warranting state intervention, the Standards have encouraged reexamination of current definitions.

More important than contributing to the debate on what should constitute abuse, the Standards, in attempting to establish justifiable grounds for coercive intervention, have focused attention on the relationship between the state and the family. Specifically, the broader issue is concerned with the degree to which the state should intervene in the family to ensure adequate parenting: whether it should have a comprehensive plan to follow in the case of intervention and what the nature of that plan should be; how it should deal with dependent and neglected children; what role foster care should play in the relationship between the family and the state; how the criteria for intervention should be defined; and what role the state should have in medical decision making for children. These matters, along with that of child abuse, are pressing and complex in nature. As people come to understand that they are parts of a total picture, we are likely to see efforts to resolve them placing more and more emphasis on the need to achieve a proper balance between the competing interests of family autonomy and protective state intervention.

---Samuel M. Davis
I. FISCAL AND MONETARY POLICY

FISCAL – FUNDING THE UNIVERSITY FOR THE FUTURE

The mission of a research university involves the creation of new knowledge, the cost of which is an investment in the future rather than a maintenance cost of ongoing programs. The cost of creating knowledge through research at the University of Georgia and other major research institutions is a capital investment that pays dividends through the development of future resources instead of consuming resources in the present.

The mandate of research universities to create new knowledge is different from missions of departments of government or from any other types of educational institutions. This is the reason that in many states the governance of a research university is vested in a board independent from government influence and oversight.

Most departments of state government provide defined services which do not change from year to year. Thus, it is probably reasonable to appropriate funds and regulate those functions by uniform criteria. A research university’s mission involves new efforts that have undefined boundaries — programs of exploration to which standard cost formulas simply are not applicable — in addition to the continuation of ongoing programs. When a state places standard restraints or applies a standard funding procedure to processes that are evolving and have nonrepetitive needs, the result is a predictable outcome from the program. But predictable outcomes in research are the same as no outcomes, since productive research involves actions that result in unpredictable reactions.

The application of standard processes to provide needed resources for research usually means the loss of valuable time, effort, and resources in obtaining reactions, or research results, since those results are not known in advance. Resource needs for research must be based on the evolving demands of work leading to scientific discoveries.

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.
unlike resource needs for highway construction that are based on known engineering standards that lead to predictable outcomes.

The application of standard regulations and controls has measurable consequences on most state functions; if "X" amount of paving equipment is not purchased, the resultant decrease in number of paved miles can be calculated. The result of a standard rate on a fixed amount of appropriations applied to a research university without regard for the changing needs of inquiry is more difficult to measure, but the effects can be far more damaging.

A funding philosophy that does not reflect an understanding of the needs and nature of research stifles incentive, retards scientific inquiry, and leads to research sterility. Since research deals with the unknown, it is impossible to know what advances are lost, what knowledge remains undiscovered. The future return on research, while unknown, has potentially unlimited boundaries and immeasurable benefits. This is a view seldom appreciated in a budget process that deals with all functions in the same way.

A research university depends heavily upon nonstate resources to fund its research activities; but once these funds are received from other sources, the state budgeting process is often applied to these funds just as to state funds. In fact, there is a tendency to place outside income earned by research universities in the state treasury, frequently by reducing state appropriations in some ratio to outside funds received. In effect, research universities that receive state funds are penalized for their success in attracting research grants and contracts from nonstate sources.

The lack of an awareness of the needs of research is not confined to any one state but is a relatively uniform problem for all public research universities. In Georgia, the funding formula for public higher education has historically been based on student enrollment, with little provision for special funding needs of the state's research university. A new formula is being proposed that considers the specialized funding needs of a research university.

A major goal recently adopted by The University of Georgia clearly shows how a research university performs its mission to develop new knowledge, how the lives and futures of all citizens are affected by the research, and why it is important that state funding and policies take the special role of a research university into account. The goal is to continue The University of Georgia's progress toward becoming a world center in the fields of production, conversion, marketing, and distribution of biomass.

Certain background factors must be considered to understand why this is a logical and vital goal for the University. The first consideration is the projected growth of world population to more than six billion people by the year 2000. This projected growth of 3% in population since 1975 will put enormous pressures on finite resources now used to produce food, fiber, and fuel. Nothing is as dangerous to world stability as that pressure, and a viable resolution to this problem must be found.

The second consideration is the State of Georgia's assets: the largest land mass east of the Mississippi River; rich soil, adequate surface and ground water, and an ideal climate for growing trees, crops, and other kinds of biomass; two deep-water ports for direct access to foreign markets; and -- the critical element -- knowledge developed at The University of Georgia.

Our faculty's involvement in genetic research, in cloning and shortening growth cycles for trees, in all areas of agriculture, has demonstrated how to produce vast quantities of raw materials. Faculty research in biological fermentation and conversion of biomass has made The University a world leader in these fields. We know how to grow cellulose and other biomasses in the proportions needed, how to convert it into the raw material for fermentation, how to make the fermentation
process itself far more efficient, and how to produce intermediate and end products of an infinite variety.

The application of this research to the production of alcohols, other fuels and foods, chemical "feedstocks," and on down a long list, has endless possibilities. It can replace petroleum now used in growth, conversion, and product production. Use of systems demonstrated by University of Georgia research can also produce quantities of food, fuel, fiber, and other products at a cost far less than similar petroleum-based production.

Combine this scientific knowledge with the University's talent in marketing, distribution, and international trade law, and the biomass goal comes even more into focus. All the necessary elements are present for the State of Georgia to become the world leader in biomass production and distribution.

Such an industry could mean an entirely new economy for Georgia, an economy that would be perpetually self-renewing as well as nonpolluting and nonextractive. Georgia could export the food, fiber, and fuel a growing world must have and also export the technology to produce all three. Biomass technology could replace a petroleum-based technology in a variety of applications and would be enormously profitable for Georgians. And Georgia would play a major role in helping millions of people meet life-fulfilling needs.

The biomass goal represents the kind of endeavor that a first-class research university must pursue and the kind of vision it must have on behalf of its sponsoring society.

This goal also demonstrates that the funding and operating constraints for research universities must reflect an understanding of the research university and its boundless possibilities for accomplishment and contribution.

---Fred C. Davison

II. INTERNATIONAL ARRANGEMENTS

ECONOMIC/COMMERCIAL - CONTINUING UNCERTAINTIES IN EAST-WEST TRADE

East-West trade has been a rather uncertain and risky business over the last decade. Shortly after a commission reported to President Nixon that the volume of U.S. trade was small and likely to remain so for the 1970s, the Nixon administration undertook an expansive East-West trade program. In 1972 Secretary of Commerce Peterson called for a $10 billion expansion in U.S. Eximbank credits to facilitate long-term joint development of massive Siberian gas projects. Other significant agreements were reached that year, including the provision of considerable credits through the U.S. Commodity Credit Corporation for Soviet purchases of American grain, the removal of several barriers to U.S.-Soviet commercial shipping, and most notably, a trade agreement and settlement of the Soviet lend-lease debts. Although some important aspects of the agreements (e.g., Soviet most-favored-nation status) were lost in the ensuing confrontation between the "Watergate Presidency" and an increasingly assertive Congress, the Nixon administration laid the groundwork for significant increases in U.S.-Soviet trade. Perhaps an even more surprising development during the early 1970s was the opening of the People's Republic of China (PRC) to the U.S. and the subsequent growth in Sino-American trade.

Most observers expected the Carter administration to continue the expansion of East-West trade begun under the Nixon and Ford administrations. In the case of Sino-American trade this was certainly done. The normalization of relations and subsequent U.S.-PRC Trade Agreement led to further expansion of commercial relations. However, the Carter administration's desire to use trade with the Soviet Union as a "bargaining chip" to elicit more favorable Soviet domestic and foreign policies severely damaged the U.S.-Soviet trade relationship. The Carter administration's denial of certain export licenses and the addition of oil and gas extraction technology and equipment to the commodity control list were early signals to the Soviets that trade would be used as a bargaining tool and a political weapon. Subsequently, the Carter
administration embargoed grain shipments, temporarily suspended and subsequently tightened controls on the sale of high technology, and undertook other economic sanctions to signal U.S. displeasure with the Soviet invasion of Afghanistan.

In response to the 1981 imposition of martial law in Poland, the Reagan administration imposed further restrictions on United States trade with the Soviet Union, including suspension of export licenses for electronic equipment, computers, and other high-technology items. In the summer of 1982, the Reagan administration took the sanctions a step further by attempting to embargo sales of pipeline equipment by European firms under U.S. license. Although the United States pushed for sanctions against the Soviets in both the Afghanistan and Polish situations, the allies remained skeptical of using trade sanctions as a means of bringing about more acceptable Soviet foreign policy. Clearly, many tough questions of East-West trade, technology transfer, and export controls trouble and divide the Atlantic alliance.

Although the alliance often avoids sensitive and contentious questions related to East-West trade, some of the most important issues were placed on the Western political agenda in the early 1980s. At the 1981 Economic Summit Conference in Ottawa, for example, the United States proposed follow-up discussions concerning further restrictions on the export of strategic goods and other high-technology items to the Soviet Union. As a first step, in January 1982, the conference conducted a high-level review of those issues within the organization of the Coordinating Committee (CCOM) for multilateral export controls in Paris. Although these and other recent high-level meetings, including those on the natural gas pipeline and export credits, did not achieve a common Western policy, they were timely and well advised. Through such contacts, the Western countries may develop a better understanding of the difficult issues of East-West trade and of one another's interests and policies, thus forming a basis for better policy coordination.

Because of the linkage between politics and economics in East-West trade, U.S. governmental policy may be the most powerful determinant of our trade with the centrally planned economies (CPES). To a large extent, trade between the United States and the CPES has been based on political relations rather than economic realities. U.S. export controls, for example, were loosened in the 1970s to correspond with the policy of detente and not to serve U.S. economic needs and interests. The controls were subsequently tightened vis-a-vis the USSR at the end of the decade when the U.S.-Soviet relationship soured.

Import restrictions represented by the withholding of most-favored-nation (MFN) status from selected CPES also reflect the changing political environment. The Soviet Union and all other centrally planned economies (except Yugoslavia) had their MFN status withdrawn during the Korean War. Poland's status was regained in 1960, Romania's in 1975, Hungary's in 1979, and the PRC's in 1980. Poland's most-favored-nation status was withdrawn once again in 1982. Denial of MFN to the Soviet Union continues to obstruct expanded U.S.-Soviet trade. The absence of this status is even more an impediment to trade and more expensive to some of the East European countries than it is to the Soviet Union. For example, over 75% of East German and Czechoslovak sales to the U.S. in the 1970s were subject to higher tariffs, while only about 25% of Soviet exports were subject to this form of tariff discrimination. U.S. policies governing credits and financial restrictions are also linked to political relations and have acted as a major impediment to expanded East-West trade.

What surprises concerning export controls, import restrictions, credits, and other aspects of U.S. policy can be expected in the future? Is the U.S. government, in contrast to its allies, going to continue to link trade and politics, or will it move to place East-West commercial relations on a more stable footing?

Particularly pressing choices exist in the area of U.S.-Soviet trade. Prior to the Soviet invasion of Afghanistan and the United State's subsequent imposition of trade restrictions, 1979 bilateral trade set new records, with total trade turnover reaching $4.46 billion. In 1980 it plummeted to $1.96 billion. Will the U.S. continue its
restrictive "lightswitch" policy, and if so, will our allies join in
restricting their trade with the USSR? Available evidence suggests the
reluctance and unwillingness of most of the allies to do so. In
attempting to use trade to influence Soviet policy, the U.S. may succeed
in removing only itself from the East-West trade arena, and in so doing,
lose both the influence and commerce this trade once promised.

Experience and research have shown that using trade for political
ends is an inefficient foreign policy instrument and generally doomed to
failure. The goals of economic sanctions are seldom achieved, and the
consequences are often unintended and sometimes counterproductive. Like
its allies, the U.S. should do more to separate trade from politics in
the East-West area, and make our trade policy more predictable to U.S.
exporters and trading partners alike. The United States should tighten
controls on militarily critical technologies and avoid sanctions and
nonstrategic trade. There is no reason to sell our most advanced and
militarily critical technologies or to sell agricultural goods at rock-
bottom prices subsidized by the American consumer. With agreements and
legislation such as the 1975 U.S.-Soviet Orains Agreement and the intent
of the 1979 Export Administration Act, this should not occur. Yet more
needs to be done to formulate and implement enlightened policy which
will remove East-West trade from the perils and uncertainties of "lights-
switch diplomacy." Since U.S. policy will continue to have a powerful
impact on East-West trade, interested parties both inside and outside
government should take care to see that it is decided and administered
wisely.

--Gary K. Bartsch

III. DOMESTIC ISSUES

HUMAN DYNAMICS - CHAPTER 11 TODAY:
PRINCIPLE CHANGES FOR CORPORATE REORGANIZATION

Currently, reorganization of virtually any business, regardless of
size or type, may be handled under Chapter 11 if the entity is not
excluded from relief under the Bankruptcy Reform Act.

Banks, savings and loan associations, and insurance companies are
excluded from relief under Chapter 11. Ordinarily state law adequately
provides for liquidation of these financial institutions. Although
Interstate railroads are excluded from Chapter 7 relief, those entities
may be dealt with under a separate subchapter of Chapter 11. By the
same token, the liquidation of stock and commodity brokerage houses is
provided for in Chapter 7, subchapters III and IV. Congress was per-
suaded that the financial failure of a brokerage house destroyed the
"going concern value" of the entity, thus obviating an attempted reor-
ganization.

A review of some of the principal changes in the law will illus-
trate how new Chapter 11 picks up portions of old Chapter X; where it
follows Old Chapter XI, and where it breaks new ground. Unlike old
Chapters X and XI, the relief afforded under new Chapter 11 generally is
not influenced by the character of the debtor unless it is in a class
excluded from relief under the Bankruptcy Reform Act. While only a
corporation could be a debtor under old Chapter X, a new Chapter 11
petition may be filed by or against an individual, partnership, corpora-
tion, or virtually any other legal entity. Thus, an entity qualifying
for liquidation relief may become a debtor under Chapter 11.

A second change resulting from Chapter 11's enactment turns on the
nature of the debt, including limits on the debtor's dischargeability. In
this vein, new Chapter 11 is modeled after old Chapter X rather than old
Chapter XI. Where old Chapter XI could affect only unsecured debt and
contained severe limitations on the question of dischargeability, old
Chapter X could affect all debts or equitable interests. Due to the old conflict, a debtor often elected relief under old Chapter X in order to receive the benefits of the more generous discharge provisions.

Under new Chapter XI, however, debt and equity interests may be changed, with all debts being discharged except those specifically itemized in the plan or noted in §1141 of the Bankruptcy Reform Act. Thus, failure to file a claim will not bar a discharge of the claim.

New Chapter XI follows the outline of old Chapter X regarding the filing of a petition for relief. It must be noted that the debtor today is given a specific period of time within which to propose a plan without interference from other parties in interest. In contrast, old Chapter X allowed voluntary filings by the debtor and permitted no filing by creditors. Thus, there were instances under the former law where creditors, who would have preferred another plan, had to elect among the available alternatives: they could persuade the debtor to alter the plan; they could institute an involuntary petition; they could file an involuntary petition under old Chapter X; they could attempt to persuade unsecured creditors to reject the plan; or they could simply permit the debtor to do nothing. All too often, these alternatives were not acceptable.

The new reorganization chapter differs from old practice with respect to the appointment of a trustee. Under old Chapter X, the appointment of a disinterested trustee was mandated for the typical reorganization case. The trustee operated the business and was accountable for the formulation of the plan. Under old Chapter XI, the debtor was the only party allowed to file a plan and usually was left in possession. Under current law, the debtor is routinely left in possession. A trustee will be appointed only at the behest of a party in interest and then only where there is a showing of fraud, incompetence, or similar cause. Under §1106 of the new law, an examiner may be appointed to investigate the debtor’s affairs in the same way the trustee functioned under old Chapter X.

It is important to note that the SEC’s role has been changed by new law. Under old Chapter X, the United States District Judge could request the SEC to report on any plan presented to the court. These reports took precious time to prepare. Little positive value was realized by and through these activities. Under the new law, the SEC does not have the responsibility of such reports, and even though the agency may be heard, they are not allowed the right of appeal.

Whether Chapter XI favors the debtor or creditors is not easily answered. The change made in §1122, which permits a creditor to file a plan in addition to the creditors’ right to file a §103(b) petition, supports those who claim that new Chapter XI eliminates some of the debtor’s previous advantages under old Chapter XI. By the same token, these changes satisfy creditors who charge that old Chapter XI favored the debtor since it gave the debtor the sole right to file a petition and a plan.

Chapter XI’s most significant aspect is the provision contained in §1129(a) which reduces the role of the judge in a proceeding where the statutory majority of each impaired class approves the plan under §1129(a)(8). This subsection is not similar to the standards of old Chapter X. The subsection is more akin to old Chapter XI, which did not require a judge to determine whether the plan was fair and equitable as to a member of any class when the statutory majority of each unsecured class had accepted the plan.

New Chapter XI essentially reversed the holding in *Case v. Los Angeles Lumber Products Company*, 308 U.S. 106 (1939), a decision which held that Chapter X’s predecessor, old §77B, imposed a two-part requirement for the confirmation of the plan: initially the plan had to be approved by the requisite majority; and next, the judge must find independently that the plan was “fair and equitable,” as well as feasible. It must be pointed out, that *Case*, however, was not completely reversed; the fair and equitable requirement is still found in new §1129(b), but that situation applies only where consent of at least one impaired class has not been received. The feasibility requirement survives as to all
plans covered by the language in §1129(a)(11). It is important to note further that the Case doctrine survives and is applicable only to a dissenting class.

If a plan proponent cannot meet the test of §1129(a)(8) and a party petitions the judge to confirm the plan under §1129(b)(2), other parts of Case are resurrected, but in a very limited fashion: that is, only as to cover the rejecting class. As to that rejecting class, the judge must be convinced that the plan is fair and equitable under the language of §1129(b).

Obviously, in a complex corporate reorganization case, there will be occasions where plans must be resolved through the judicial process rather than through acceptance by the majority holders of each class of claims. Chapter 11 provides a judicial standard to solve such problems.

--Walter Ray Phillips

IV. NORTH AMERICA

ECONOMIC DISLOCATIONS IN THE U.S.-MEXICAN BORDER REGION - This is the most dynamic period along the U.S.-Mexican border since the raids and alarms of the 1910 Revolution in Mexico. While a new Pancho Villa or Emiliano Zapata has yet to appear, and while no grillo has announced the beginning of a new revolution, the conditions along this 1200-mile frontier have been so exacerbated by the worldwide economic recession and by Mexico's and the United States' own particular brand of economic woes, that rumors of revolution and of economic raids have become standard items of periodic border gossip.

The background for this general tension has been widely publicized. The U.S. economy is in the worst position of nearly two-and-a-half generations. Mexico, during a brief period of oil prosperity, enjoyed an equally brief but massively publicized attempt to meet the promises for social change made during the 1810 and 1910 revolutions. Then the Mexican economy was staggered by recent reversals when its oil revenues fell drastically short of earlier projections. Results were an inflation rate estimated at nearly 100%, the inability to meet commitments on $80 billion in foreign debt, two separate and disastrous peso devaluations, the nationalization of the country's banks, and a necessary but bitterly resented agreement with the International Monetary Fund which kept the country solvent but clearly pointed out that the promises for social reform had once again been set aside for the foreseeable future.

The conditions existing in either Mexico or the U.S. are sufficient to cause serious problems in local economies, such as high levels of unemployment, business failures, and other personal dislocations. However, when the conditions of both economies are combined, as is currently happening on the U.S.-Mexican border, the situation becomes even more complex and potentially grave. Recent news releases provide a summary of some of the economic complexities of the region.

In a recent Wall Street Journal article entitled "Hard Times at Home Cause More Mexicans to Enter U.S. Illegally," border patrol detentions for the past two to three months were reported up as much as 70-90% over the same period last year (Wall St. J., 11-17-82, pp. 1+). Interviews with detainees indicate that economic conditions in Mexico are a significant push-factor towards illegal immigration. Estimates of unemployment in the immediate border region run as high as 25% on the U.S. side and 40-45% in Mexico. More layoffs and restrictions of work hours appear imminent. While many individuals crossing the border unofficially are aware that the United States is going through difficult economic times, they feel conditions cannot be nearly as bad as those at home, and point to the widely publicized 10% unemployment rate in the U.S. as an indicator of relative prosperity as compared to their own position.

In another release, the Commerce Department indicated that the Mexican economic situation may be partly responsible for the record U.S. trade deficit this year, because of the significantly reduced purchases by Mexicans of goods from the U.S. (J. of Commerce, 11-29-82, p. 3A1.
An example of the complexity of this condition is the border import-export liquor business. Thousands of dollars of liquor (Scotch, Vodka, and Drambuie) are imported from overseas each month by custom brokerage houses along the U.S. border and sold, duty-free, to the hundreds of curio shops in Mexican border towns. U.S. tourists then cross the border to purchase this liquor. Some high-prestige beverages cost from one-third to one-half less than the U.S. price. When the bottles cross back into the United States, a nominal state tax is collected for each bottle. A profit is made at each stage of the transaction (U.S. to Mexico to U.S.), and the tourist gets a bargain buy on liquor. However, current economic problems, especially the freezing of dollar accounts and the restriction on the use of dollars to purchase import goods, have caused havoc with this back-and-forth trading system. Lack of dollars to replenish their stock has caused the closure of some of the Mexican curio shops, which in turn has caused increased inventories, reduced cash flow, and in certain cases, closure of U.S. brokerage businesses.

The retail trade and real estate markets along both sides of the border are also sensitive indicators of current conditions. During 1980 and 1981 the retail trade and the real estate markets along the U.S. border were in an enviable position compared with those markets in the U.S. as a whole, and this prosperity was mirrored in the retail business of the Mexican zona frontera. The retail trade of any U.S. border town ran as high as 50-60% trade with individuals crossing over from Mexico. The most popular items were clothing and electronics equipment, both of which could be taken back into Mexico fairly easily in ways that circumvented the high import tariffs or other restrictions attached to purchasing these items in Mexico. The dealers with the highest sales volumes in the United States for such electronic equipment as Sony, Hitachi, and JVC are located in relatively small border towns.

While the retail trade of a year or two ago reflected the comparative prosperity in Mexico, the real estate trade presaged current conditions. Rumors of devaluation and stricter economic controls in Mexico caused many Mexican nationals to purchase homes or property in the U.S., and real estate sales in the border region boomed at the same time a general slowdown was occurring elsewhere in the U.S. The price of condominiums in border resort areas, such as South Padre Island, rose rapidly and triggered the construction of new projects.

In August the new monetary situation turned both retail and real estate sales around 180 degrees. The first devaluation, on August 5, merely slowed down both processes. Memories of successful business recoveries from the 1976 devaluation kept the general business climate in a guardedly optimistic mode by encouraging the belief that conditions were temporary and would adjust. But the second devaluation, the currency restrictions that accompanied it, and the nationalization of the banks turned optimism to pessimism. The effect of these conditions has been extensive layoffs in nearly all U.S. border town retail stores, as well as in Mexican border stores. In the real estate market, there is now a glut of houses and condominiums for sale, since many Mexicans who were purchasing condominiums could not get dollars out of Mexico to make their payments. Some beach property is available for the price of a token cash payment to the owner and the assumption of monthly payments on the existing loan. Some real estate brokers report not having sold any houses above the value of $35,000 for the past three months. And even such relatively broad-based retail stores as Sears and J.C. Penney (with significant sales to local, as well as Mexican, customers) indicate that pre-Christmas customer volume may be as much as 70% below that of a year ago, showing the combined effect of the reduced trade from Mexico and consequent layoffs and reduced trade from the U.S.

Perhaps the best indicator of current border economics is the overnight creation of hundreds of casas de cambio (unofficial entrepreneurial dollar/peso exchanges) in all the U.S. border towns. The major impetus behind these enterprises has been the divergence between the two fixed exchange rates of 50 and 70 pesos per dollar maintained in the interior by the Mexican government and the free-dollar trading rate that has hovered around twice the fixed 70-to-1 rate (Wall St. J., 10-12-82, pp. 11). It has been widely speculated that the free-dollar exchange rate along the border will soon climb to 200-to-1. This situation has made it possible for a large number of entrepreneurs to set up a highly
profitable exchange business with a very limited capital investment. Many casas de cambio opened their operations with hand-lettered signs on the hoods of cars or on small aluminum picnic tables, but the successful enterprises are now likely to occupy "respectable" portable metal sheds or, in some cases, even more portable recreational vehicles. And while price wars and volatile rates distinguished the early stages of this system, the situation has recently become more stabilized. Most of the fluctuations in peso rates now take place on a daily, as opposed to an hourly, basis.

These peso/dollar exchange businesses were made possible by two conditions: the extreme reluctance of U.S. banks to exchange pesos for dollars and the intense desire of many Mexican nationals to do so. One example of the lengths to which people have gone to effect an exchange was related by an individual who is a permanent U.S. resident, but whose mother lives just outside Mexico City. The mother recently sent 600,000 pesos in cash to her daughter to exchange and put in a safety deposit box in the U.S. This cash bundle was passed through four sets of courses, each living progressively closer to the border, before it was finally crossed over to this side. After such an odyssey, the desire to exchange pesos for dollars was not to be denied.

The woman's request that her currency be put in a safety deposit box is also indicative of the unsettled nature of the general situation along the border. In November, after the bank nationalization in Mexico, there was a virtual run on banks in south Texas border towns when the rumor spread through the Mexican towns of Reynosa and Matamoros that the U.S. government was going to freeze all bank accounts owned by Mexican citizens. Several banks were seriously depleted of cash reserves as people stuffed thousands of dollars into safety deposit boxes, regardless of assurances that individual accounts could not legally be frozen. Even now, this and other similar types of rumors are common in the border region. Consequently, only individual entrepreneurs are generally willing to exchange pesos for dollars. One result is that the currently accepted exchange rates for local businesses (and in some cases, for national business concerns) are being set by entrepreneurial speculators rather than by established financial institutions -- a situation that creates nearly endless discussion and rumor about both the economic and the political consequences of a nearly archetypal local free enterprise system.

On the positive side, the peso speculation has helped a number of border businesses in both the U.S. and Mexico that might otherwise have failed. The manipulation of exchange rates in order to turn a profit can be quite complex. For example, some businesses in Mexico continue to be able to sell products for dollars. These dollars are taken to the U.S. and sold for pesos in a casa de cambio. The pesos are then remitted, carried into the interior of Mexico, and used to purchase goods for sale at prices reflecting the fixed peso rates that obtain in the interior. These goods are transported to the border and, to complete the cycle, are sold either for dollars or for pesos at black-market prices available in some border regions.

As this article is going to press on December 20, the peso has just undergone another serious devaluation. The Mexican government has now established a three-tier system of 50-to-1, 95-to-1, and a legal floating rate, reportedly now at 150 or more pesos to the dollar. While the consequences of this latest devaluation and exchange system cannot be predicted with precision, certain conclusions may reasonably be drawn. Most immediately, the retail business on the U.S. side of the border, with but five days remaining before Christmas to salvage the year from economic disaster, has surely been dealt a devastating blow. This will contribute to the negative psychological impact of the devaluation on border business generally, the effect of which is likely to be felt far into the new year. The expectation of a 200-to-1 exchange rate will probably be moved up from six months to perhaps a few weeks away. With the floating rate now legalized, U.S. banks may decide to move back into the exchange business, thus eliminating the entrepreneurs. Finally, those businesses that manage to survive and prosper will become increasingly reliant on exchange-rate speculation and manipulation to turn a profit, and their well-being will most likely come at the expense...
of individuals in the interior of Mexico, who must pay the price for that manipulation.

Obviously, the potential for profit and for disastrous loss that comes from manipulating the current situation on the border or failing to do so is enormous. For all practical purposes the Mexican border region—la frontera, as it is called in Mexico—and the border zone of the United States are inextricably intertwined in ways often unknown to or ignored by policymakers of both nations. Most of the policies and solutions to financial problems in both nations are directed at the conditions inherent in their respective central regions. Because border conditions differ markedly and are generally left out of the decision process, the policies adopted often exacerbate existing problems. This situation should not be allowed to persist. In the future, policymakers must address the different dynamics in the border regions in order to implement remedial actions that will reduce the serious problems present there today.

--Robert T. Trotter

V. EDITORIAL

EFFECTIVE GOVERNANCE: DEPENDENCE ON NEW KNOWLEDGE AND EDUCATED CITIZENS—With the implementation of the "new federalism," responsibility for meeting citizen needs that raise numerous complex social issues is shifting from the federal to state and local levels. Unfortunately, many state and local government agencies and supporting private organizations do not have the expertise to deal efficiently with these issues. Moreover, revenue shortfalls caused by the slow economic recovery are fueling community parochialism and forcing responsible government agencies to rely on dated knowledge that often does not accurately depict the dynamics of complex social issues. In commercial (as opposed to social) areas, however, states are expanding overseas sales of goods produced within their borders by aggressively assuming traditional federal functions and developing new knowledge about international commerce. For example, despite possible conflicts with international trade rules on subsidies, New York, Utah, and California are each establishing state export financing facilities; and Ohio is creating a full-service state trading company to market its industrial products.

Paralleling these major shifts of responsibility and initiative from the federal to the state level is the increased public attention concerning abstract governance problems. In the 1970s most public debate centered on relatively circumscribed economic issues, such as unemployment or growth rates in particular industries and regions. Toward the end of the 1970s, disparities in the development of different regions in the U.S. fueled interest in a more macro-analytic approach to economic problems. During 1981 and 1982, President Reagan dramatically shifted public interest to fiscal issues; and now considerable attention is riveted on monetary policy and the related matter of interest rates. Each of these shifts has forced policymakers to address increasingly abstract and uncertain issues, for which current intellectual knowledge and research offer only limited insight about the most effective course of action. Moreover, ill-advised decisions on such abstract matters as monetary policy have a far greater social cost than decisions made during the 1970s on more restricted problems, as, for example, unemployment in the Northeast. And on the more abstract issues citizens are least able to express meaningful opinions to guide and constrain government and private sector officials.

Despite the changes in problem focus, however, citizens continue to be exposed to such specific issues as foreign competition and the need for protectionism. The origins of the present protectionism movement are not easily discernible, but some factors are clearly important. First, strong international competition and large-scale unemployment in particular industries have forged new alliances between labor and management dedicated to short-term remedies. In addition, a rising capital fluidity among U.S. industries has permitted vast amounts of capital to move from industries such as steel to other areas where more favorable rates of return on investment prevail. The inevitable result is a further decapitalization of industries already suffering in the
International marketplace because of underinvestment in modern facilities. A natural solution to this problem would be the regulation of capital migrations from one sector to another when they are likely to carry with them enormous social costs for the general public. Such solutions, however, are not part of America's governance fabric.

A complicating factor with regard to the rise of protectionism stems from the U.S. government's inability to integrate effectively disparate agency and citizen interests in a foreign context. Major conflicts among agencies responsible for national security, foreign policy, and commerce are to be expected, but their resolution requires a reasoned approach that seeks to accommodate the core needs of each interest. Instead, these conflicts often escalate until they must be carried to the White House or Congress for a "winner-take-all" resolution. Subsequently the concerns of the "losing" agencies, as well as the legitimate concerns of citizen groups that are not adequately represented by the major agencies, are further eroded as our diplomats try to accommodate conflicting but critical interests of other foreign countries. Thus, on too many occasions the U.S. submits to international agreements that do not reflect the hierarchy of domestic economic interests, especially when important U.S. security and foreign policy interests are at stake. For example, the U.S. government is unlikely to insist that member nations of the European Economic Community (EEC) eliminate illegal subsidies of their poultry exports, even though they materially injure U.S. poultry producers in foreign markets, if Europe accommodates U.S. defense interests concerning European missile deployment and if the EEC further limits steel exports to the U.S.

Currently, despite the increased interest in broad-scale socioeconomic issues, the public's knowledge of the dynamics of these issues is inadequate to define optimal solutions, largely because of the traditional preoccupation with narrow, immediate problems. The absence of citizen opinion enlightened by an understanding of the numerous issues being raised by increased international commerce has encouraged U.S. officials to craft responses to these larger issues that promote their own special interests in the combative bureaucratic and political environment so prevalent today.

Unfortunately, universities have not been as effective as they could be in encouraging decision makers to place greater reliance on reason rather than on combat. In a manner analogous to the expenditure of resources within the federal government, educational resources have been used primarily in the pursuit and dissemination of knowledge that will advance the interests of one narrow discipline or another. University service facilities have at times captured some of this new knowledge, translated it into an understandable form, and related it to the larger context of ongoing political, social, and economic concerns. Even so, too little has been said -- and done -- about the absolute necessity for any modern society to have a means to gain systematic enlightenment concerning emerging issues. Without such a system, citizens have no way of forming rational opinions, and important governance decisions will be controlled primarily by whatever rhetoric is deemed most suitable to advance the interests of those who use it.

As our world moves from a collection of sovereign nations to a sphere of culturally diverse yet interdependent interests, many multifaceted issues -- extraterritorial application of antitrust laws, government assistance and subsidies for export expansion, human migration, and transborder data flows, to mention a few -- must be addressed by the U.S. government. It is thus essential that the public agenda focus increasingly on such middle-ground issues between specific local concerns and broad philosophical matters which the national government highlights but too often resolves through a competition of interests rather than through reasoned analysis. The presence of a keenly interested and informed public will ensure that public- and private-sector policy decisions more frequently rest on sound research about the probable consequences of particular policy initiatives over time and will stimulate university research to examine issues from perspectives that reflect realistic about the environment with which policymakers must deal. Equally important, a university community whose focus is turned outward as well as inward will allow college students inexperienced with the
complexities of public and private sector activities to assimilate knowledge and make career choices with a reasonable grasp of daily events and their future implications.

This publication, Briefings, has identified many of the middle-ground issues that will shape the destiny of this nation and its citizens in the coming months and years, and it has reviewed them briefly from both policy and disciplinary perspectives in a form amenable to use by all citizens, including students, teachers, businesspeople, and government officials. Fiscal and monetary issues have been given prominence because of their increased influence upon local, national, and international conduct, but not to the exclusion of other domestic and international issues concerned with social, economic, political, and military activities. It has provided readers with an opportunity to gain new insights on current events and has encouraged the formation of reasoned opinions about the appropriateness of previous government actions and the need for future initiatives. Budget cuts and perhaps a lack of understanding about the importance of this exploration of middle-ground issues, however, have made publication beyond this issue impossible. While the curtailment of a meaningful university activity is unfortunate, Dr. Davison's lead article makes it clear that the situation is not unusual, despite its long-term disutilities. Moreover, it cannot be properly blamed on our political leaders who seek earnestly to fathom the interests and needs of the citizens they represent. In America, the people are the ultimate repository of power. It is they who must aspire beyond parochial interests and existing knowledge. Further, they must articulate their interests with facts rather than with rhetoric if they wish their political and industrial representatives to respond to them faithfully and wisely.

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