FISCAL AND MONETARY POLICY

Fiscal - Federalism in the Courts
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NORTH AMERICA

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EDITORIAL

Agriculture, Citizens and Government
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 determinant 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. These bi-weekly briefings reflect the convergence of the Center's diverse activities and interests.

Comments or questions concerning Briefings should be directed to:

Briefings Editor
Dean Rusk Center
University of Georgia
Athens, Georgia 30602
(404) 542-2875

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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: FEDERALISM IN THE COURTS

In recent months federal officials have urged restraint of federal court review on issues already litigated and reviewed by state courts. Such restraint is advocated on administrative, political, and jurisprudential grounds and, if realized, would likely reduce the amount and cost of litigation, as well as eliminate court delays without major expansion of the judiciary. In a parallel vein, President Reagan’s State of the Union address called for a reinvigorated federalism that would shift more responsibilities to the states, encouraging fiscal responsibility through closer linkage between payments and expenditures. Despite philosophic appeal, many question the realism of broad-scale federalism (Bus. Wk., 2-8-82, p. 27). Numerous members of Congress believe it would dilute important social gains made only through national legislation. State governors fear it would transfer major financial burdens to state treasuries.

From an efficiency standpoint, the “new federalism” seems practical. Many states cannot legally engage in deficit spending. Consequently, if citizens wish to avoid the financial burdens of proposed government programs, they must forego the benefits of such programs. Diverse choices about this balance made by various states would presumably result in variance of tax burdens and public services in each state. Over time, it could be expected that state experiments would encourage citizen migration in search of acceptable relationships between expenditures and benefits. In essence, the result would be a national marketplace for assessing the values of various mixes of public services, provided the courts ensure U.S. citizens and aliens effective freedom of movement among states.

Despite potential efficiencies in resource allocation and selection, state definition of needed benefits accompanied by restrained federal court involvement in state decisions could seriously erode the court’s power to ensure a fundamental concept of fairness. Current concern about minimal standards of fairness appropriate for discrete issues, such as non-discriminatory access to social benefits and the right to be heard on various public issues, might be replaced by judicial over-involvement of each citizen’s right to move among the states in order to shop for the proper ratio of benefits and burdens. Court retreat from decision making on the specifics of particular areas of human interaction would necessarily diminish over time its capacity to make judgments about the inherent importance and legality of various government actions at both state and federal levels. Erosion of its critical role in the separation of powers could also be expected.

Advantages of the new federalism and of curtailed federal court review cannot, of course, be rationally debated without recognition that many socio-economic groups cannot or will not migrate in pursuit of the optimal mix of fiscal responsibility and public good benefits. For them, the fiscal efficiencies assumed in citizen choice among states are unlikely to be realized. Moreover, if federal district courts continued to interpret the content of public goods programs having some federal heritage, it would be difficult to determine, without right coordination among districts, whether the benefits and burdens of a state are a reflection of citizen choice or local court discretion.

If fiscal austerity encompasses all areas of government, the courts will presumably intervene cautiously in state-citizen relations on public goods issues because of the inherent costs involved. Federal courts seeking retention of current status will tend to substitute intellectual power and strategic judgment for pervasive physical presence. In essence, circuit and district judges will selectively exercise jurisdiction over public goods disputes to maximize impact without repetitively supervising controversies in the same class of litigation. If so, the next decades will not record retreatment from activism, but rather court evolution as an active arbiter among citizens and their representatives on matters which have great precedent value.
B. MONETARY - POLITICAL IMPLICATIONS OF MONETARY POLICY

The political importance of monetary policy has been evident to U.S. citizens over the past few months through watching the Reagan administration, with mid-term elections approaching, sparring with the Federal Reserve over high and volatile interest rates and over what U.S. monetary policy should be (Bus. Wk., 2-1-82, p. 19). Because the Fed has statutory independence from other federal branches (although some economists claim it does adjust its policies to conform to administration wishes), it is a good candidate upon which to lay blame for an economic plan gone awry. Conversely, too much acrimony between the President and the Federal Reserve chairman can appear politically unseemly; and the administration has lately reversed its earlier criticisms of Fed policy, saying instead that it supports the central bank's efforts to reduce inflation, which shows signs of abating. President Reagan has not made a similar public conciliatory gesture toward members of the European Economic Community (EEC), who continue to object to high U.S. interest rates on the grounds that they have been primarily responsible for a strong U.S. dollar and resultant capital outflow from Europe at a time when investment is desperately needed to stimulate stagnant economies now in recession over two years (N.Y. Times, 2-14-82, sec. 12, p. 1; Financial Times, 2-16-82, p. 1; 2-18-82, p. 1). That the concern is based on a reality was made evident again after January 21, when the Bundesbank, West Germany's central bank, hoping for lower U.S. interest rates and under pressure to aid Chancellor Schäuble's shaky coalition by providing a stimulus to the economy, dropped its key interest rate from 10.5% to 10%. The move backfired. U.S. interest rates rose instead, and the value of the deutschmark fell substantially in international exchange markets, unfavorably affecting other European currencies and weakening further the positions of West Germany and Europe (Bus. Wk., 2-19-82, p. 73; 2-25-82, p. 44).

That policies and conditions in the U.S. which result in strong international dollar now have noticeable impact on western European countries is fairly clear, though the current European recession appears to be traceable to a conscious tightening of monetary policy in Europe in 1979 as a means to counteract the inflationary effects of another round of stiff oil price increases. A side effect of those policies has been the further decline of much of Europe's aging industrial base—which may have long-term utility for Europe but has exacerbated the current serious economic situation. Now, with unemployment high and showing no sign of having peaked, a number of European governments and central banks seem ready to loosen monetary policy somewhat to provide a modicum of relief from economic stringencies imposed over the last three years (Bus. Wk., 2-1-82, p. 35; Wall St. J., 2-19-82, p. 1). Their ability to do so, however, has become severely limited by the realities of floating international exchange rates.

This situation highlights the rejection by more and more economists of the monetarist argument that inflation is solely a function of monetary growth and can therefore be brought under control by tightening the money supply (Challenge 24(2):39-42 & 43-48, Sept.-Oct., 1981). It has been argued that under fixed exchange rates only fiscal policy could be used to combat inflation because monetary policy had to be directed at maintaining the exchange rate. Monetarists strongly supported the move to floating exchange rates because they believed monetary policy would then be freed for use as the primary inflation controller; no special
problems were envisioned from exchange rate adjustments. Recent history has not proved the efficacy of the monetary tool. First, tight monetary policies not only can dampen demand, but also have negative effects on supply, even when the latter is supposedly being stimulated by such fiscal policies as tax incentives. Second, heavy reliance on monetary policy has led to excessive volatility in exchange rates, compounding negative supply effects and exporting economic difficulties to other countries. This last outcome appears to be accentuated when fiscal and monetary policy are working at odds with one another (Banker 132(671): 21-24, Jan. 1982).

Yet as western Europeans seek relief from the consequences of their own actions and from the current hold of the dollar over available choices, the U.S. seems bound to supply-side orthodoxy—spurring supply with fiscal policies and controlling inflation (demand) with monetary policy, although with respect to the latter, friction exists between the Fed and the administration over such details as how closely monetary policy can or should be fine tuned (Natl. J., 2-20-82, pp. 327-30; Federal Reserve Bank of Kansas City Economic Review, 1-82, pp. 3-16). While inflation seems to have slowed over the past few months, all the beneficial consequences of a less overheated economy have not appeared. In particular, interest rates remain high even though the inflation premium should presumably be lower. A number of explanations have been offered for this situation, all suggesting the inadequacy of monetary policy as the sole controller of inflation: (1) strict control of the money supply results in highly volatile short-term interest rates, which flatten the yield curve (the differential between long- and short-term rates), destroy the bond market, and stifle capital investment; (2) continuing high interest rates could mean that the public simply does not believe lower inflation is anything other than temporary, primarily because (3) federal deficits, especially when augmented by the uncontrolled credit creation of off-budget financing, suggest that the government cannot or will not exercise restraint to avoid colliding with private requirements in credit markets; (4) moreover, this enormous credit creation is beyond the power of Federal Reserve control or...
II. INTERNATIONAL ARRANGEMENTS

A. ECONOMIC/COMMERCIAL — PRIVATE INVESTMENT IN DEVELOPING COUNTRIES

Last fall, Peter McPherson, administrator of the Agency for International Development, unveiled the administration's plan to increase U.S. private-sector initiatives in long-term development in less developed countries (LDCs). The Bureau for Private Enterprise was created to demonstrate the concept's feasibility in the LDCs throughout the world. Simultaneously, officials in the Departments of State and Treasury advocated reduced U.S. funding of the World Bank and International Monetary Fund. Apart from consistency with government-wide budget cutting, the reductions seem intended to discourage escalating reliance on public-sector initiatives and to provide opportunities for the privatization process announced by the President and confirmed by Mr. McPherson.

Early this year the President focused his privatization theme in an integrated strategy for intensive development and readjustment in the Caribbean and Central American regions. The feasibility and consequences of these privatization initiatives were analyzed at a University of Georgia conference which assembled scholars, company officials, national and international public servants, and the ambassadors of several major LDCs.

Underlying the debate about these initiatives is rising concern about appropriate strategies for achieving fiscal responsibility in both industrial and developing countries. Continued foreign aid is viewed by some as incompatible with public resolve to reduce the federal budget deficit and reallocate scarce resources between domestic social needs and foreign activities. Others believe it imperative to support an international lending system that provides public-sector loans to LDCs for repayment of interest on earlier development loans. They argue that institutions such as the International Monetary Fund, created to ensure currency stability on a world scale, are increasingly using their funds to further subsidize LDC deficits. A third perspective conceives of privatization initiatives as overdue recognition of the private sector's critical role in world development and its right to invest worldwide without excessive reliance upon or meddling by governmental institutions. Economic conservatives argue that world financial relations are best served by reliance on the free market for allocating goods and services, and that the public sector's role should be confined to a facilitating function. Despite the philosophic appeal of resort to a free market system, these initiatives are resisted because they would necessarily reduce funds for basic infrastructure development that provides a foundation for efficient provision of public goods.

Apart from conflicting values, the proposed initiatives fuel debate about their feasibility in terms of human dynamics. Success assumes that international organizations as well as host governments will alter radically their perspectives on government's role in managing development. Many employees within these organizations, however, believe only public institutions should direct the provision and allocation of both public and private goods. They are unlikely to manage willingly a system which contradicts that concept. Moreover, the initiatives assume private companies will aggressively seek international investment opportunities and make the long-term commitments inherent in projects that can provide goods and services currently sought through infrastructure development. In the past, despite substantial opportunity, U.S. enterprises, on the whole, have not been aggressive as long as domestic market opportunities were adequate. Even if the spirit is there, it must be accompanied by large amounts of timely information between host countries and foreign enterprises concerning opportunities and risks.
Structures for the development and distribution of this information are being developed for large companies, but access to information will remain a problem for smaller companies. It is unlikely the latter will actively participate in the absence of a greater range of investment risk guarantees provided by this government, host governments, and international institutions.

While not often noted, increased private sector development in lieu of international organization financing of LDC governments can materially improve efficient utilization of scarce investment capital. International organization capital transfers traditionally are channeled through LDC bureaucracies and envision their involvement in fund application even though physical improvements are implemented by private companies under contract. This involvement creates several efficiency problems. First, it encourages duplication of skills in the public and private sectors with resulting project cost inflation. Second, in many skill areas the country may already have a labor deficit, and thus the government bids away from the private sector skills needed to execute investment projects. Finally, government-sponsored development programs frequently bifurcate the capital and human knowledge transfer processes, whereas private-to-private sector arrangements often transfer both simultaneously, since the human knowledge transfer facilitates efficient and effective use of the capital.

Clearly there is a broad range of needs and efficiencies that can be satisfied from a more privatized international development process. Moreover, broad-scale private sector involvement directly with LDC counterparts will enrich the appreciation of U.S. citizens for the problems and opportunities that exist beyond their own country.


B. POLITICAL/MILITARY - ISOLATIONISM IN THE U.S.

Isolationism, the belief that America should be uninvolved in international affairs, is an anachronism and basic American attitude with potentially significant influence on U.S. foreign policymaking. It can encompass withdrawal from a range of diplomatic, military, and economic activities abroad, and is advocated with varying degrees of intensity. Recent events provide a setting for illustrating its potential role in world politics and the quality of American life. To counteract the spread of Insurgency in El Salvador, the White House has requested a $100 million increase in military and economic aid to the Salvadoran government, thus making its total request $500 million (N.Y. Times, 1-31-82, p. 1). The threat of an escalation of pacification measures among industrialized countries was perhaps overtaken by a recently concluded agreement in Florida not to take any unilateral actions to reduce imports (N.Y. Times, 1-17-82, p. 11). In Western Europe in October, massive protests were held against proposed U.S. deployment of theater nuclear weapons in Western Europe and the alleged lack of notice by the United States and the Soviet Union in controlling deployment of strategic and tactical weapons (Time, 11-30-81, p. 37). In November negotiations for the reduction of tactical and intermediate-range nuclear weapons in Europe began between the United States and the Soviet Union (Time, 12-14-81, p. 44).
Although U.S. presence on the world scene is all-encompassing, isolationism is a latent sentiment among members of Congress, the private sector, and presidential advisers (N.Y. Times Magazine, 12-6-81, p. 212; Economist, 1-9-82, p. 19). These groups represent a national isolationism rooted in a desire to preserve and revive old American values such as individual economic opportunity, limited government, fiscal responsibility, agrarian and village mores, and foreign policy that exists independently from international and especially European affairs. The frontier and settlement strain in American history persists in the disinclination of some Americans to become involved in international affairs and instead to concentrate on the development of a national tradition and culture in an insular environment.

The relative lack of experience America possesses compared to Europe in diplomatic affairs engenders a sensitivity to what Americans believe to be the offensive war Europeans criticize and do not cooperate with the United States, its protector. This sensitivity can translate into an advocacy of military withdrawal from Europe (Economist, 1-9-82, p. 19; German Tribune, 9-13-81, p. 1; 11-13-81, p. 3; 9-20-81, p. 11). Some Americans conclude that U.S. loss of control over world events in the past decade constitutes failure in a 40-year experiment in worldwide political and military involvement (Wall St. J., 1-4-82, p. 30). The various cross-national trade, technological, and cultural interactions that proliferated after World War II are considered by isolationists either as worth sacrificing, or as interdependencies that will continue even though the political-military framework which others believe the sine qua non for their existence is dissolved. Those who advocate merely a disengagement from western Europe justify this on the grounds that most of America's future export markets lie in Asia (Wall St. J., 12-5-81, p. 30).

The consequences for a U.S. military disengagement abroad would be far reaching. If this withdrawal from Europe involved corresponding diplomatic initiatives eastward, then the dissolution of military commitments in Europe would force the U.S. to accelerate its infant policy of rapprochement with China. Because western European military capability is not unified, central European defense would collapse (German Tribune, 9-20-81, p. 22). If the U.S. were to disengage itself from Japan, Japan would be forced to undertake a massive shift in resources from industry to a conventional and eventually nuclear military buildup. It is also possible that if the U.S. were to undertake this massive rearmament, it would fall back on its traditional strategy of basing its defense on the security of Latin America as a bulwark against extra-continental threats. Disengagement could possibly lead to protectionist policies on the one hand or a more assertive posture in trade and monetary negotiations on the other. Though U.S. economic growth might continue, GNP would not be as high, and product innovation would decline. The U.S. claim to cultural pluralism and to being a center in the free flow of ideas and information could no longer be made with its former vigor.

Because a fundamental disagreement between "isolationists" and "internationalists" concerns the kind of life Americans are to live, lifestyle becomes a part of the concept of national interest. Isolationists often believe Americans can and should return to the days when the country was separated from the rest of the world by a distance not fully overcome by sophisticated communications and transportation systems. Internationalists believe America should continue to pursue its interests abroad, thereby making easier, through experience in international transactions, the domestic adjustments to inevitable foreign influences and inputs.


C. SOCIAL/CULTURAL - PALESTINIAN AUTONOMY

Past actions of the Palestine Liberation Organization to gain world attention have so alienated most western public opinion that the human dimension of the Palestinian autonomy issue is often overlooked. More than 300,000 Palestinian refugee children may be unable to attend school after April of this year. The U.N. agency responsible for the operation of these schools in Gaza, the West Bank, and Lebanon is running short of operating cash (Economist, 1-25-82, p. 42). The United Nations Relief and Works Agency for Palestinian Refugees (UNRWA) was set up in 1949 to care for the welfare needs of refugees from Palestine. This agency has never been properly funded, relying on voluntary contributions from member governments. With its 1982 budget falling $77 million short of the needed $262 million, 639 primary and junior secondary schools face closure. Given the volatile political tensions in the region, closure of the schools could lead to increased social unrest.

The agency's financial difficulties are ameared with regional politics. Arab countries blame the U.S. and the West for the creation of Israel, the source of the Palestinians' plight. For this reason the Arabs insist that Israel's supporters fund UNRWA's operations. Western countries counter that the oil-rich Arabs could easily provide aid and should not be so insensitive to the needs of their Palestinian brothers. Even if sufficient aid were forthcoming to fund UNRWA's activities, however, the conditions of the widely dispersed Palestinian population will undoubtedly remain until some self-administered autonomy allows for relocation of the displaced persons. While the solution may be readily apparent, achievement of it is highly uncertain. During Secretary Haig's recent trip through the Middle East, little progress was made toward a compromise between Israel and Egypt on the Palestine autonomy issue (Wall St. J., 1-29-82, p. 16). All Arab countries recognize the legitimacy of Palestinian rights, and most diplomatic observers worldwide see clearly that solution to the Palestinian problem is central to a lasting peace in the Middle East. During his last visit Haig sought to obtain a declaration of principles on Palestinian self-rule before April 25, the date for the final Israeli withdrawal from the Sinai (N.Y. Times, 1-29-82, p. 5).

But basic ideological differences exist between Egypt and Israel over Palestinian self-rule. Autonomy talks, which began in May 1979, have been deadlocked over the powers of any Palestinian self-governing authority (N.Y. Times, 2-4-82, p. 11). Israel has a strong fear of any Palestinian state and therefore wishes to limit the size and legislative powers of any assembly that would be elected to rule the West Bank and Gaza during a five-year interim period (N.Y. Times, 1-29-82, p. 5). Another difficulty arises over the Palestinians living in East Jerusalem: should they cast absentee ballots for West Bank constituencies or have a locally elected council with administrative powers (Newsweek, 1-25-82, p. 307)?

The widely divergent opinions on the route toward autonomy within Israel and the Arab world are mirrored within the eight factions of the Palestine Liberation Organization. Armed clashes recently occurred in West Beirut between Yasser Arafat's Fatah faction and Salan, a Syrian-backed faction (N.Y. Times, 2-2-82, p. 6). The organization has been riven by disagreements over the relative merits of the Saudi Arabian peace plan, and it is considered highly likely that it would break apart at the slightest indication of recognition of the state of Israel by any one of the factions (N.Y. Times, 2-4-82, p. 25). Within Israeli political opinion is growing more polarized. Before the Begin government a balance was kept between religious and civil authorities. This balance is becoming strained, with a large body of opinion fearing that strong religious fanaticism is harming the country. The tough Zionist ideological stance with regard to settlements on the West Bank will undoubtedly
make the approach to a compromise that much more difficult (N.Y. Times, 1-31-82, p. E21).

Nowhere are the Irahis more dramatically portrayed than in Jerusa-
lem. There, a worklike toleration of daily life permits a peaceful
coexistence between Jew and Arab. For the Jerusalem Arabs, the past 14
years have seen them become much richer than they were under Jordanian
rule (Atlantic Monthly, 2-82, p. 13). In many respects they are becoming
the city's urban proletariat, while their old village and local life is
being destroyed. However, although they may have become materially a
part of Israel, they still have a passionate desire for cultural inde-
pendence and political autonomy. As has so often occurred throughout
history, the symbolism of a desired event can take precedence over more
pragmatic options. In consequence, we can expect the need for UNRWA to
exist for some considerable time in the future.

"Megopolitics: Toward a U.S. Policy on the Palestine Problem." M.

"Potential Impact of Palestinian Education on a Palestinian State."
1979.

"Problems of Palestinians in Israel -- Land, Work, Education." A. A.
Elrazik, R. Aina, and U. Davis. Journal of Palestine Studies


III. DOMESTIC ISSUES

A. VALUES - GOVERNMENT PRODUCTIVITY FIGURES

Productivity figures recently released by the Bureau of Labor Sta-
tistics (BLS) show only a slight improvement from the downward trends of
the past few years. Although productivity increased at a rate of 3.2%
Institutions in the fast-growing service sector are not included in BLS productivity figures because their services are not "sold" in the market, so that no measure independent of their input costs exists (Monthly Labor Review 102(9):25-27, Sept. 1979). Consequently, productivity figures ignore some very considerable improvements in the quality of American life that have taken place in recent years. For example, not only is there better health care, but it is accessible to a much wider range of people than before. Similarly, government regulations concerning environmental protection, worker safety, and equality of opportunity for women and minorities have enhanced the community in moral, spiritual, and physical terms even though these regulations may have slowed off some potential investment funds from productivity-oriented capital formation into expenditures for compliance.

Other structural changes in the economy must also be weighed in order to evaluate the meaning of productivity trends. BLS methods overstate labor input by counting hours paid rather than hours worked. Since workers have won more holidays and other paid leave, their output in terms of hours of work may not have fallen as much as the figures would indicate. BLS methods also tend to understate output growth in regard to "high technology" products, such as computers, which change rapidly; replacement of old- with new-generation equipment is counted as an increased cost rather than an improvement in quality (Monthly Labor Review 102(9):23-27, Sept. 1979; American Economic Review 70(2):340-55, 1980).

As America's economy becomes more post-industrial, i.e., based on services, technology, information processing, and the preference for leisure activities over material rewards, the more existing government measures still underestimate not only improvements in the non-material quality of life but also actual gains in productivity. Some reform is possible, but measurements in these areas are inherently difficult. It should be remembered that aggregate statistics such as GNP and national income, which were developed as recently as the 1930s and 1940s, work best in certain types of economies, especially those in which most of the "wealth" created is assigned a value by market pricing. As a University of Pennsylvania economic study recently demonstrated, cross-cultural comparisons based on measurements developed for advanced industrial economies introduced a downward bias into evaluations of LDC living standards. These measurements do not work as well in subsistence agricultural economies; they also may not work for post-industrial economies.


B. HUMAN DYNAMICS - UNREST AND CORRUPTION IN INDIA

A number of recent events in India have suggested to western observers as well as to Indians themselves that the country may have entered a period of rising violence and social unrest as well as widespread and damaging corruption in the government. This past year has seen a substantial increase in violence directed at local officials throughout the countryside as well as against untouchables (Economist, 1-9-82, p. 46; N.Y. Times, 1-20-82, p. 4). After a law was passed last summer permitting the government to ban strikes in any industry it deemed essential, eight unions ranging ideologically from the far left to the far right felt sufficiently threatened to combine their energies in protesting it and other policies viewed as repressive. The
culmination of their cooperation was an attempted nationwide one-day strike on January 19. The strike was condemned by the use of harsh government tactics, including the authority of the laws the strike was designed to protest (Far Eastern Economic Review, 2-12-82, p. 28; Newsweek, 2-1-82, p. 49; Economist, 1-23-82, p. 42). The strike occurred shortly after Prime Minister Indira Gandhi had been forced to accept the resignation of one of her closest supporters, Maharashtra state's chief minister A. R. Antulay, who was convicted essentially of accepting kickbacks from the state of scarce government-controlled cement. Although Antulay's name was not mentioned directly, his case must have been in mind when Indian Prime Minister Rajiv Gandhi delivered his Independence Day speech on January 25, in which he condemned the decline of moral values in Indian public life. Reddy was joined by a chorus of concerned voices, mainly well-educated Indians but including both opponents and supporters of Mrs. Gandhi, that have spoken out against pervasive corruption among those holding public office (Chn. Sci. Mon., 1-14-82, p. 1; 1-26-82, p. 4; Economist, 1-23-82, p. 41; N.Y. Times, 1-26-82, p. 3).

These events are occurring in a nation of stark contrasts, with multiple languages and cultures, where a modern western democracy has been grafted onto a vast, diverse population dominated by an ancient feudal system and the Hindu religion, in which equality of persons—an essential tenant of any democratic system—has no real place. Within feudalism and Hinduism, people of power and status are exempted from rules of conduct that apply to lesser human beings. A position of power gives one the right to use it for one's own advantage; moreover, one has a duty to use authority for the benefit of one's family and caste. Hinduism further reinforces the power of the mighty in such laws as those regarding the crime of murder: Taking the life of a Brahmin is punishable by death, whereas the death of an untouchable may be atoned for by the same ritual of purification performed after the killing of a bird or animal (N.Y. Times, 1-27-82, p. 6; Economist, 1-23-82, p. 41).

Another contrast is found in India's levels of development. With a highly educated and skilled population segment, it has made impressive strides in the development of heavy industry and high technology, is creating its own nuclear capacity, and has even recently ventured to send an exploration team to Antarctica. Against this development and sophistication is a backdrop of rural India, where fields are plowed by bullocks; electricity, if available, is not dependable; and water is often not safe for drinking. Despite the economic growth of the last three decades, India has failed to meet its economic goals; and with population growth surging ahead, increased numbers of people have negated much of the economic advance that has been achieved, so that such figures as per capita income remain little improved. In the last 10 years a further demographic problem has developed as migrants have begun to pour into cities from the countryside, swelling the ranks of the unemployed and underemployed. The rapidly increasing urban population could portend more unrest like that of the recent strike (Far Eastern Economic Review, 2-12-82, p. 23; N.Y. Times, 1-26-82, p. 3; 2-19-82, p. 4).

While the strikers acted out of concern about laws that could be used to prevent them from seeking economic improvements, neither they nor the Indian populace in general were concerned about corruption in government. In line with traditional practices, political and bureaucratic posts are widely viewed as natural positions for self-enrichment and the dispensing of patronage. Because of India's mixed economy and large bureaucracy—considered necessary means of coping with job-creation requirements of such a large populace—the problem of corruption is compounded as more and more people are provided a bit of government power which in turn gives them the license to use it for non-bureaucratist purposes (N.Y. Times, 2-2-82, p. 27).

Mrs. Gandhi, who is generally credited with having a keen understanding of the Indian mind, has largely ignored the claims of corruption. Though she remains popular, she has not delivered on her 1980 campaign promise to give India a government that worked. And though corruption does not yet appear to have been identified by the Indian majority as an area of serious concern, what the critics of corruption
are pointing out is that it can be a significant contributing factor to the social problems that confront the nation. As President Reddy expressed it, "Unless we take immediate action to arrest this disregard of moral values in public life, people's faith in our political system will be undermined with consequences that are too frightening to contemplate." (Chins. Sci. Mon., 1-26-82, p. 4).


C. RESOURCES - SCIENCE EDUCATION

The basic philosophical core that underlies education and its role in society is becoming a source of concern in this time of financial stringency. The debate over the significance of higher education covers not only curricula content but what should be expected of public and private entities in ensuring an adequate transmission and furtherance of knowledge. Industry complaints over shortages of qualified technicians and engineers abound, and the Department of Education has appointed a study group (the National Commission on Excellence in Education) as a result of concern over Japanese, West German, and Soviet educational achievements and what they might mean for the United States' future technological competitiveness. In Japan 4.25% of college graduates are engineers; in the United States this figure is 1.6%. A recent National Science Foundation study found that fewer than 10% of U.S. high school students study physics for one year or more and that only 3.5% have had a year of calculus. Only one-third of U.S. school districts require more than one year of science. In the Soviet Union, students complete four years of chemistry and five of physics (Economist, 10-10-81, p. 104; Newsweek, 2-1-82, p. 60; N.Y. Times, 11-15-81, sec. 12, p. 1).

Concerned educators question the logic of the present administration's reduction of federal aid to education, especially science education, at a time when economic programs seek increased productivity in the industrial sector. Budget squeezes affect the sciences more dramatically than other subjects because of substantial fixed-cost capital teaching aids and the difficulty of keeping science teachers' salaries at levels comparable to those in the private sector. A recent survey by the American Council on Education found that 10% of the faculty positions in the 244 accredited engineering schools were vacant in 1980. In high-demand fields of computer science and computer engineering, this figure was 16%. Furthermore, as federal financing for university research programs declines, the ability of teachers to remain at the cutting edge of their discipline is diminished, which provides further inducement for them to pursue their careers in industrial research settings. In the high school system, opportunities for qualified instruction may be even more critical. In 1981 it was estimated that only 10,000 physics teachers were available to cover 17,000 U.S. school districts (N.Y. Times, 1-10-82, sec. 13, p. 14; Economist, 10-10-81, p. 104).

The question of the most fruitful source of productivity-enhancing invention and innovation has concerned economists and other scholars for some time. The general consensus of past research is that invention—that is, autonomous increases in the technological base—are more likely to spring from individual or small-group activity. Innovation, or the application of these autonomous additions to knowledge, is more likely to be undertaken by larger firms in oligopolistic market structures that allow achievement of longer-duration monetary rewards. The House Committee on Science and Technology recently completed three days of hearings on a bill that would divert funds from basic scientific research in U.S. universities to small technological companies. The Small Business
Innovation Development Act of 1981, which has already passed the Senate, requires federal research agencies to provide grants to small innovative firms for support of pre-commercial development and demonstration work. Opposition from major academic institutions, whose research programs are already suffering financial stress, has been considerable. While detractors of the bill acknowledge the need for support of such private research, they believe it would be counterproductive if it should come at the expense of basic research and education (N.Y. Times, 1-29-82, p. 9).

University fears that government-sponsored research will decrease have caused many actively to hire research grants and contracts from corporate sources. While data is difficult to obtain, estimates indicate that 3% to 5% of the approximately $6 billion annual research budget of all universities comes from industry sources. To increase this share some universities have gone to the extreme of appointing consultants to improve the marketing of their research skills. While these developments have merit, the inherent danger is that a university’s long-range agenda of basic research will be distorted too far toward immediate problem solving. In other words, greater emphasis will be placed on the innovative aspects of technological advance to the detriment of the equally vital invention aspects.

The contemporary international economic environment will exert greater demands for technological progress. Yet the U.S. appears to be becoming less science literate in an increasingly science-oriented world. Poor science education affects public perceptions of sensitive technological issues that have political overtones. In consequence, a narrow, short-sighted perspective on the worth of basic education and research in scientific areas could result in a longer-term deterioration of dynamic efficiency.


IV. NORTH AMERICA

MEXICO’S URBAN MIGRATION PROBLEM - Excessive emigration from rural areas to a small number of urban centers is one of the most serious problems confronting Mexico’s leaders. More than 70% of rural migrants relocate in Mexico City, Monterrey, Guadalajara, or the northern border zone (Mexican Forum 14(4):3-4, Oct. 1981). Mexico City, with more than 20% of the nation’s population, is especially burdened. Many of its residents live in the most squalid conditions and overcrowding makes the capital city, which has for years endured high levels of air pollution, increasingly subject to water shortages and floods.

In 1978 the government acknowledged the problem of imbalanced population distribution and began to adopt policies, including an economic and political decentralization plan, to influence migration patterns. Businesses were offered land, tax credits, and investment incentives to locate in development zones away from the capital; public corporations were set up in these areas; and an agency was established to assist and guide potential migrants. Decentralization of the government’s power structure would also deflect migration away from the capital by creating alternative centers of political and bureaucratic power. These initiatives were based on the assumption that migration decisions were informed by a crude economic calculus: People were drawn to the capital because it accounted for 50% of industrial production, 39% of total wages, and 40% of the GNP (American University Field Staff Reports, Mo-
19, 1980). It seemed that population pressures on Mexico City could be eased by establishing alternative economic and political centers.

Although it may be too soon to judge, little progress appears to have been made. To understand the failure of this policy, one must analyze the complex nature of Mexico's skewed demographic distribution. First, Mexico as a whole has a severe overpopulation problem. It was one of the last LDCs to recognize that modern health care had reduced mortality rates to such an extent that net population increases were reaching dangerously high levels. In 1975 the median age in Mexico was 16.2, the lowest of any major country in the world. High rural fertility rates created population pressures even in remote areas. Rural population grew from 20 to 25 million between 1930 and 1980, despite the fact that the percentage of the work force employed in agriculture declined during the previous decade from more than 50% to less than 40%. Rural overpopulation is particularly problematic because of Mexico's shortage of arable land: only 0.75 acres per person can be cultivated, compared with 2.2 in the United States. During the Echeverría presidency the government began to support and implement a birth control program. Although it has been fairly successful with urban dwellers, it has yet to reach a large portion of the rural areas, where 43% of Mexican women live. Even if it can overcome problems of geographic inaccessibility, it may have difficulty surmounting cultural barriers. (Amer-ican University Field Staff Report, nos. 19 and 42, 1980; Current History 80(469):370-75, Nov. 1981).

Although rural population growth beyond the capacity of Mexican land to sustain its people is probably the basic reason for excessive migration to the cities, the government has inadvertently encouraged this periphery-to-center flow. The federal government's centralization and its prominent role in the economy have drawn people to Mexico City. Recruitment into the political and bureaucratic elite is increasingly contingent upon education at the national university and experience in the capital. Businesses prefer this central location because of better access to loci of government decision making regarding subsidies, incentives, and sometimes even such simple matters as licenses.

Despite its formal allegiance to symbols of the Revolution, government intervention in the private sector has generally worked to the advantage of major corporate interests. For example, large-scale commercial farmers, producing primarily for foreign markets, cultivate land irrigated by government water projects, have access to special credit terms, and enjoy other forms of public support; these inputs are unavailable to small farmers. Moreover, because the commercial farms are capital intensive, they do not absorb labor from the small farms they displace. Even government programs designed to subsidize small farmers and poor consumers do not cover millions of the poorest Mexicans, and those who are covered do not receive full benefits because of corruption among local political bosses who carry out these programs (Current History 80(469):370-75, Nov. 1981). Mexico needs labor-intensive economic activities to absorb the 700,000 to 800,000 entrants into the work force each year. Heavy industry and commercial agriculture may sustain Mexico's high economic growth rates, but if economic development does not include massive job creation, most of Mexico's oil wealth will be absorbed by food imports and social welfare costs.

If Mexican leaders are to solve the problems of overpopulation pressures on Mexico's largest cities, they will have to institute reforms influenced by a perspective encompassing more than a narrow conception of microeconomic rationality. People move to cities not so much because of purported economic opportunities, but because they have friends and relatives there who can provide them with a ready-made social network. These personal communication systems are critical in obtaining jobs and government services. A possible way to influence future migration away from Mexico City and other major centers would be to seek actively to relocate recent migrants in jobs in secondary cities. By so doing, the government would be exercising a direct influence on the network of communication that controls much of the movement from rural to urban areas (Journal of Developing Areas 15(2):238-49,
relationship between agricultural commodities and citizen stability has not been neglected, however, by our political leaders. Subsidies and a broadening array of export controls have been deployed to ensure the stability of citizen-consumers. During this decade both domestic and international events will test the adequacy of these government policies. From the government's perspective they are already proving inadequate. Also, food producers now argue with increasing effectiveness that these policies are unfair and inconsistent. Presumably, as citizen-consumers understand the complexity of the food production process, they will likely conclude they are unfair. What are the current realities fueling this discontent with the current government approach to domestic food security?

Early in this century, American agriculture was largely a diffuse group of family-oriented production units that valued independence, eschewed regulation, and approached the feast-or-famine reality of weather-determined crop growth with almost religious resolve. Since World War II it has evolved into a bifurcated production structure (corporation versus family) that is capital intensive but not vertically integrated in terms of distribution and processing. Government institutions have subsidized much of this development in response to political pressures from diverse interest groups rather than rigorous analysis of production economics, demographics, and leveraged financing. Consequently, the existing environment of institutions, processes, and policies is ill-equipped to deal effectively with the current realities of: (1) dwindling political power of agricultural interests; (2) large urban areas completely dependent on a national rather than more localized food production system; (3) a deteriorating economy which ravages capital borrowers locked into high interest rates premised on sustained cash flow; and (4) large-scale international competition in food commodities and products.

The government's non-food priority of deficit reduction has already undercut a broad array of food and farm subsidy programs which have insured that food supply comfortably exceeds residual demand. Extensive
deference to defense policy, especially regarding the Soviets, coupled with rising foreign food commodity production is materially eroding foreign dependence on agricultural production, depressing farm income often below rising production costs associated with land, equipment, fuel, labor, and interest on large amounts of borrowed capital. Finally, excessive branch determination to reduce government intervention in market processes will substantially limit its capacity to control food prices and ration consumption as economic realities reduce food supplies to a closer parity with demand. Will all these factors destabilize relations among domestic producers, consumers, and the government? Perhaps not, if the nation's leaders acknowledge certain realities and act consistently with existing knowledge about values, human dynamics, and world resources.

New information technology will soon provide all food producers, big and small, with up-to-date information on most short- and long-term factors relevant to their production activities. It will also assist them in making the complex calculations essential for rational action. Over time they will be able collectively to retard oversupply and obtain a more optimal relationship between production and income. Increased state involvement in agricultural marketing of key products will provide stronger direct linkages between producers and foreign consumers as well as restore some rational political power to producer interests at the expense of consumer interests. Greater levels of domestic processing of food commodities into finished products tailored for foreign consumption will make it difficult for the federal government to impose meaningful agricultural embargoes.

Continuance of existing concern in approaches to agricultural production and marketing in the face of these developments can only stimulate further destabilization of producer-consumer relations. Thus, the government must embark on new directions. If subsidies are to be eliminated, the government must refrain from embargoes or the threat of embargoes in order to allow U.S. producers to be perceived as dependable suppliers in a world market. This will ensure adequate prices for all supplies and maintain income levels essential for continued operation. Furthermore, the government must actively police the maintenance of standards for competition in food products in world markets. Countries which subsidize agricultural production must not be allowed to sell such subsidized products in world markets in ways which undercut the long-term advantages of U.S. production. The standards for this policing have been largely adopted in recent Tokyo Round trade negotiations. All that is needed is government resolve to enforce them. The United States food production structure is internationally recognized as having enormous comparative advantage. It does not need subsidy, and the nation's long-term interest is not well served by depressing prices in order to accommodate domestic consumer interests. Rational application of economic principles demands that consumers pay food prices adequate to cover the costs of capital and labor. This price will not be enequant as long as the government ensures that we retain our economies of scale in food production by being able to market larger percentages of our output in foreign markets without unnecessary governmental intervention by either U.S. or foreign governments.