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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.

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I. FISCAL AND MONETARY POLICY

A. FISCAL—REAGAN, THE BUDGET, AND CONGRESS

President Reagan's 1983 budget message, delivered February 8, has caused consternation among an array of diverse groups whose concern over the budget's possible impact on the U.S. economy is matched only by their surprise at finding themselves in agreement with one another. Counting on grass roots support for his program, Reagan later urged members of Congress to listen to the voice of the people when they returned home for the recent recess. However, except for districts that have remained largely insulated from the widespread recession, the message sent back to Congress did not accord with administration expectations. Rather, people across a wide socioeconomic spectrum—blue-collar workers, farmers, small business owners, and executives of the nation's largest corporations—are expressing extreme concern over high interest rates and prospective high deficits, which are linked in many minds. While Reagan is still claiming publicly that he will not compromise on any of the key elements in his package (although he might consider other comprehensive proposals), the consensus in Congress is that the President's budget, as it stands, has no chance of passing. The degree of opposition can be seen not only in the Democratic response of people like Sen. Ernest Hollings (D-S.C.)—a staunch supporter of the military who has called for heavy cutbacks in proposed defense spending—but in counterproposals offered by such Republican leaders as Pete Domenici (N.M.), Robert Dole (Kan.), and Howard Baker (Tenn.), all of whom occupy powerful positions in the Senate (Congressional Dirty, May 7, 1980, pp. 508, 509 & 534; Nat'l J., 12-12-81, pp. 2198-201; New Republic, 3-3-82, pp. 51). Although the budgetary outcome will not be known for some time, an outline of the political and legislative process leading to it is now discernible, along with major factors that will impinge upon it.

President Reagan is entering this round of budget building after last year's resounding success in achieving major budgetary objectives. His accomplishments, which seemed to go beyond mere temporary effects to a change in the course of federal involvement in the life of the nation, were viewed by many as startling. Other leaders, including former President Carter, had despaired of being able to influence the vast federal bureaucracy to such an extent without major structural changes in government. Even as recession began to take its economic toll, Americans saw Reagan as a "can-do" President.

What is becoming clear now is the price paid for the 1981 victories. In order to achieve change so rapidly, Reagan persuaded Congress to handle the budget in a single package, the Omnibus Reconciliation Act of 1981, which was expedited on the congressional calendar. A side effect was that the budget received cursory review in Congress, with the input of many members given short shrift. Now a typical attitude seems to be that such tactics will not be permitted again. Moreover, the recession, which the administration predicted would be short, shows signs of continuing well into the summer. With mid-term elections following in the fall, Republicans are feeling increasingly vulnerable; and they, along with their Democratic peers, are inclined to take their budgetary responsibilities seriously. The Congressional Budget Office (CBO) has already published their own budget projections, which show deficits (exclusive of off-budget items) far in excess of the administration's figures (U.S. News & World Report, 12-7-81, p. 20; 12-28-81, p. 28; 2-22-82, p. 234; 3-1-82, p. 8; 3-8-82, pp. 13 & 51; New Republic, 2-24-82, pp. 134).

What we are likely to see in the coming months is a falling away of the bipartisan support behind the President and a regrouping of bipartisan efforts around the development of a budget bearing the congressional stamp. While Democrats have been more reluctant than Republicans in putting forward a public position, a consensus may be emerging that bipartisan participation offers the greatest political advantage for Democrats. For the time being, Senate Republicans will probably continue to take the lead. Although no timeline table, other than that legislatively mandated, has been set for consideration of the budget, members
of Congress are looking to the need to raise the debt ceiling—which could come as early as the first part of April—as a possible near-term opportunity to impose restrictions on the 1983 budget. The thinking is that, by attaching a budget resolution to the debt ceiling vote, Congress could mandate deficit reduction measures (including a curtailment of defense expenditures, for example) which would not be subject to executive veto. The move could protect congressional personnel facing re-election in November from the unpleasant possibility of having to choose in early fall between voting for draconian cuts in social programs or for a budget bill promising enormous deficits. Another scenario is that if the recession continues without abatement and political difficulties continue to mount, Congress could choose to ignore its September 25 deadline for the reconciliation bill, postponing the entire process instead until after the elections (Congressional Qtrly. Wkly. Report, 2-27-82, pp. 457-60; Nat’l J., 12-19-81, pp. 2245).

For his part, the President may be more a captive of the government structure than he appeared during his first year in office. Because he has no clear power to impose a program, he must gamble that the prospects of huge deficits will induce an unwieldy Congress to make tough spending cuts along the lines he has suggested (not in defense), at the same time maintaining tax cuts already in place (Nat’l J., 2-15-82, pp. 258-85; New Republic, 1-20-82, pp. 10; Challenge 24(1):31-37, March/April 1981; Foreign Affairs 59(1):128-43, Fall 1980). Alternatively, he could be in the midst of his finest political hour, remaining steadfast by his budget and appealing to the American public in support of it, while quietly laying at the feet of Congress entitlements—the most explosive part of the budget and the one politicians are most reticent to discuss. If in its efforts to reduce the deficits, Congress should feel impelled to place restraints on growth in Social Security, Reagan will have engineered a situation where Congress bears responsibility for an unpopular act, while he keeps his word to the nation’s elderly, his tax cuts remain intact, and the budget deficit is indeed reduced. Whatever the case, time is running against Reagan. Without some relief soon from the recession, the November elections could sufficiently tip the balance of power in Congress so that the President loses the maneuverability remaining to him.


B. MONETARY - IMPACT OF STATE REGULATION ON BANKING

Last month several states, including Georgia, passed new legislation on interest rate ceilings to avoid permanent federalization of important state banking regulations. In contrast, recent federal legislation has reduced restraints on most financial services and accorded them indirect subsidies to attract capital. The Federal Home Loan Bank Board is aggressively promoting interstate mergers between weak and strong thrifts with FDIC financial commitments aimed at reducing potential failure losses. More recently, interstate thrift mergers have been impeded by the inadequacy of FHLBB and FDIC incentives. However, the Federal Reserve Board has permitted the Home Loan Bank Board to consider allowing a major New York commercial bank to acquire a large, financially troubled thrift in California. Several major banks have even shifted from state to federal charters to carry out federally favored mergers stymied by the state regulatory resistance. Clearly, traditional concepts of federalism in banking regulation are undergoing substantial modification, and federal regulation designed to reinforce the diversity and localness of finance services is giving way to policies that encourage intensive competition among services throughout the country and concomitantly nationwide institutional consolidation (Bus. Wk. 2-15-82, pp. 1294; Bus. Wk., 2-1-82, p. 20; Bus. Wk. 12-7-81, p. 39).
National and international competition among financial service institutions has long been advocated by some monetary experts and sought by several major U.S. banks to combat growing dominance of foreign banks and to reduce barriers to fluid capital transfers. To date the static inertia of a complex federal regulatory system and resistance of community and regional banks and thrifts have preserved balkanization of financial services. Presumably, this has ensured community linkage between deposits and loans. Moreover, some suggest this balkanization ensures credit for small businesses despite escalating demands of major corporations and the federal treasury. While belief in these values may not have changed drastically over the decade in most non-metropolitan areas, federally sanctioned deregulation of monetary and financial activities will diminish the institutional vehicles of their implementation (Bus. Week, 1-18-82, p. 74).

The current flurry of mergers discloses several patterns of institutional behavior predictable in light of academic theory and research. Large national and regional banks anxious to compete in particular new markets will buy weak institutions solely to gain instant market access as interstate banking becomes a reality. As independent community banks operationally merge into national or regional institutions, credit practices will trend toward standardization despite significant variances in community needs and expectations. Further, performance effectiveness will be increasingly gauged by clearly defined, short-term profit targets. If financial market uncertainty and widening federal deficits persist, the federal government will tend to use its regulatory power to force expanding institutions to absorb weak ones in markets of little interest without government subsidies or guarantees. In sum, the determinants of financial service reorganization in the near future will center on the interests of multi-unit banks and federal regulators rather than market and citizen needs.

If significant ownership consolidation occurs on an interstate basis and regulations do not materially restrict competition among diverse services using modern electronics, a highly fluid, national capital market will result. Big and small capital owners will be able to obtain instantaneously a desired mix of risk, rate-of-return and maturity opportunities in several types of investment instruments without establishing an enduring relationship with a local institution. Further, federal regulations, in collaboration with major banks, will be able more accurately to monitor various components of the money supply and apply selective controls.

Many of these developments will undoubtedly improve monetary stability and U.S. competitiveness in world markets because more efficient mechanisms will be available for funding capital plant modernization. In the process many special interest groups which have resisted reasonable responses to evolutionary pressures. In domestic capital markets will rapidly lose influence because they will have a diminished constituency. Unfortunately, in the process distinctive communities in major geographic regions will lose much control over selecting priorities for capital improvements. Within the decade most of these improvements will be dictated by national standards of profit maximization rather than community standards of need.

II. INTERNATIONAL ARRANGEMENTS

A. ECONOMIC/COMMERCIAL - ASIAN TRADING COUNTRIES

This week representatives of the U.S. and the Association of South East Asian Nations (ASEAN) will hold cabinet-level consultations to expedite increased bilateral trade and U.S. private investment in ASEAN. The Fourth ASEAN-U.S. Dialogue comes amidst growing Asian basin fears of Japanese dominance, shifting of U.S. portfolio manager interest from Asian equity to currently depressed European issues, and threatened automated manufacturing in industrialized countries that could displace ASEAN's labor-intensive assembly operations. Moreover, leading Asian countries such as Singapore are having difficulty maintaining adequate domestic labor pools. Similarly, problems confront other Asian trading economies such as Hong Kong, Taiwan and Korea. The inestimable importance of the Asian basin market to U.S. growth and the potentially destabilizing effects of deteriorating Japanese-U.S. trade relations demand greater U.S. cognizance of these Asian trading countries and an understanding of how they are changing domestically to cope with internal evolution and international trade competition (Bus. Wk., 12-7-81, p. 56; Bus. America, 3-8-82, pp. 2-17; 9-7-81, pp. 224).

All these countries have long, unique histories and embody diverse cultures in terms of social and religious perspectives. Taiwan and Korea are relatively homogeneous internally as a result of recent conflict with external forces, while Indonesia and the Philippines have disparate subcultures that place internal, centrifugal pressures on the structures of national unity. They all, however, share a common fear of external economic imperialism and internal pressures of income and educational inequalities, as well as high population densities. These factors have accelerated their pursuit of agreement on shared values that can be a foundation for collective action in relations with external powers. ASEAN has progressed over the last five years in developing this consensus about the virtues of shared action. Increased interaction among ASEAN members, Korea, and Taiwan is also fostering understanding on how their respective human, resource, and structural endowments can be mobilized to achieve greater collective political and economic strength.

The political leadership of many ASEAN countries has been stable for over a decade, facilitating maintenance of their 7% average GNP growth rate. Moreover, while they generally support free enterprise, they have resisted alignment with free trade countries, maintaining strong trade and political relations with socialist and non-socialist countries alike. In the past these relationships have been maintained primarily at the national level, but in recent years the European Community and Japan have actively dealt with the ASEAN structure as a collective representative of the five member countries. This trend will undoubtedly continue as the members accelerate their preferential trading relationships among each other and seek improved integration of their economies (Bus. America, 3-8-82, pp. 2-17).

The region's obvious successes, however, mask emerging internal problems which are also present in Hong Kong, Taiwan and Korea. Their rapid growth is premised largely on low-cost, labor-intensive production marketed to industrialized countries on a preferential basis under arrangements like the U.S. Generalized System of Preferences. Adverse economic conditions in industrial countries over the past two years, though have eroded support for such bilateral arrangements. Similarly, recent negotiations on the Multifiber Agreement have substantially curtailed privileged arrangements for the textile exports of Taiwan and Hong Kong. In other industries the acceleration of automation in developed countries promises to reduce production costs to levels competitive with labor-intensive production methods prevalent in Asia (Bus. Wk., 1-18-82, p. 39).

Despite these problems, the area possesses many human and resource endowments that ensure long-term comparative advantage. Post-war investments have created the modern infrastructure needed for rapid industrialization, and each country has reasonable depth in entrepreneurial
skills and a developed work ethic. This has permitted rapid growth without crippling inflation. By efficiently exploiting traditional strengths of natural resources, sea lane access, and good harbors, they are likely to sustain high growth rates, provided they maintain a favorable climate for outside investment. Presumably, their history of substantial free enterprise and heavy dependence on import and export trade will do much to restrain protectionism that fosters inefficient production and increases the risk associated with foreign investment. In addition, these Asian trading economies are ensuring their future world importance by developing relationships among themselves that will provide increased economies and protections of coordinated, collective action.


B. POLITICAL/MILITARY - U.S.-SOUTH AMERICAN RELATIONS

Recent developments indicate a change in U.S. policy toward South America, while continuing trends in South America suggest increasing independence of the countries in this region from traditional U.S. leadership in the Western Hemisphere. U.S. policy towards South America is now part of a larger anti-communist policy toward Latin America that is being driven by events in Central America. The context for President Reagan's Latin American policy has been provided by his invocation of the Treaty of Rio de Janeiro for the defense of the Caribbean basin from communist expansion (N.Y. Times, 2-29-82, p. A12). Proceeded by this was an announcement that the administration has approved the sale of 24 F-16 fighters valued at $600 million to Venezuela (N.Y. Times, 11-19-81, p. 32). At the same time, however, President Herrera of Venezuela warned that his country would no longer be the instrument of superpower competition, and offered the advice that military intervention in Nicaragua would be counterproductive and that American critics of the Duarte regime in El Salvador were wrong because it represented the prime hope of moderation and stability in that country (N.Y. Times, 11-18-81, p. A5; New Republic, 12-11-81, p. 174). The attempt of gathering multilateral hemispheric support for this change in policy emphasis toward explicit containment was further signified when Reagan announced his Caribbean basin initiative that offers substantial tariff reductions and economic aid to Caribbean and Central America countries (Time, 3-6-82, p. 104). The political ferment in Central America and geopolitical trends in South America have combined to pose new challenges to U.S. policy.

Recent central themes in U.S.-South American relations have been the evolution in policy from the Carter to the Reagan administration and the increasing political and economic power of Venezuela, Brazil, Chile, and Argentina. Whereas Carter's policies in South America were based on countries' adherence to human rights standards, Reagan's policies represent a renewed American concern with communist expansion in the region and a preference for asserting the necessity of stable regimes which can prevent left-wing groups from coming to power in South America. The President is using arms sales as a diplomatic tool for gaining the support of some South American countries for U.S. policies toward Nicaragua and El Salvador (Time, 3-1-82, p. 14), but those arms purchases are also helping South American governments to maintain stability on the continent by providing them a means to suppress left-wing insurgents militarily. Nevertheless, in contrast to the President's wishes, U.S.-policy has so far retains some continuity with that of the Carter administration inasmuch as the State Department continues to apply some pressure on regimes to reduce human rights violations (Foreign Affairs, 60(3):655, America and the World 1981). In general, the U.S. wants to
continue its traditional paternal policy over Latin America and to make South American countries follow the U.S. lead in global affairs.

South American governments face what they see as threats to their security arising from insurrection and left-wing subversion, as well as external threats. Right-wing South American governments accept arms from the United States to enforce internal security against terrorist and revolutionary elements. A corollary of regional scope to the desire for a stable status quo is the "Southern Cone" concept of solidarity among the right-wing regimes of Argentina, Chile, Colombia, Uruguay, and Venezuela in the face of what they consider a constant left-wing insurrection in South America. U.S. arms also contribute to regional balances of power arising from traditional intracontinental rivalries. National rivalries occasionally erupt into conflict, as between Argentina and Chile over the Beagle Channel in 1978. Such developments, taken with these countries' growth in military and economic power, have provided the basis for increasingly independent policies vis-à-vis the United States. Brazil's efforts to foil U.S. attempts at blocking the purchase of a West German nuclear reactor, Argentina's refusal to cooperate in Carter's embargo on grain sales to the Soviet Union following its invasion of Afghanistan, and the outspoken nature of Venezuela's advice to the U.S. on how it should approach the deteriorating situation in Central America all indicate an unwillingness to continue in their traditional roles as followers of the U.S. lead.

Preventing the spread of communism in Latin America is the dominant motivation for the Caribbean basin initiative. It seems to be designed to provide political stability based on long-term economic growth; hence, its effects will probably not be felt for some time. South American regimes could conceivably have an interest in supporting this program as a means of preventing the spread southward of reaction to political repression.

The U.S. is experiencing conflicting conceptions of its proper role in Latin and especially South America. Differences remain even though neither human rights advocates nor hard-line anti-communists believe the Monroe Doctrine should be renounced. While Carter's policies were rooted in a Wilsonian idealism and paternalistic tradition that sought to foster democratic values through the enforcement of human rights norms, the Reagan approach is aimed at perceived attempts at further communist expansion into the Western Hemisphere. For Reagan, the inclination of South American governments to ignore human rights is not too great a price to pay for the permanent elimination of left-wing unrest.

Whatever policy the U.S. pursues, the agenda of the U.S. and of the South American nations will be primarily divergent. Does U.S. national interest in South America lie in stability based on the prevention of communist influence by military containment, or on a development policy that gives Latin Americans a stake in peaceful and pragmatic economic growth, or on a combination of both? Apparently, the Reagan administration has chosen the latter option. If the national interest involves the promotion of democracy, then the U.S. might well lend diplomatic support to the new democratic regimes of Colombia, Ecuador, Peru, and Venezuela. Eventually, U.S. policymakers will have to ask themselves whether Southern Cone ideology is compatible with U.S. ideals and interests when its version of continental solidarity is founded on authoritarian values and might instead provide the basis for a general disruption of continental stability.


C. SOCIAL/CULTURAL - LAKER AIRWAYS AND STUDENT TRAVEL

The demise of Laker Airways may affect future travel between North America and Europe, especially for certain socioeconomic groups. The airline was a symbol of the small entrepreneur taking on established firms and increasing competition as a result. The International Airline Transport Association (IATA) cartel was obliged, at least on the north Atlantic routes, to offer a wider range of cheaper fares with obvious benefit to consumers. In some respects, Sir Freddie Laker's enterprise affected domestic deregulation insofar as it showed that air travel for particular income groups was highly price elastic. If the airline had had its way, it would have brought more competitive influences to European domestic air travel, notorious for its rigid route structure and price fixing. The main problem has always been that pro-competitive airlines are confronted by state-owned airlines subsidized by their respective governments (Economist, 2-13-82, p. 154; Newsweek, 2-15-82, p. 69).

Undoubtedly, airline price wars, coupled with a general economic recession, have caused financial difficulties for major carriers. In 1981, they collectively lost $900 million, two-thirds of which occurred on the north Atlantic routes. At a recent meeting of IATA in Geneva, a spokesperson noted that most airlines have not shown a profit on these routes for the past ten years. As a result, many of the major carriers (Pan Am, TWA, British Airways, World Airways, Air Florida) have expressed a collective sigh of relief at Laker's bankruptcy. Fares are now scheduled to rise. Executives of 20 airlines on the north Atlantic routes, meeting in Ft. Lauderdale, decided to raise passenger fares on average of 7%. While they all agreed in principle to simplify the north Atlantic fare structure, the Laker legacy is such that the move to pay fares to fixed, cartelized reference points was only partially successful. The agreement included a "market response mechanism" permitting some innovative independent action. The plan has been to simplify the fare structure by developing a price range for each fare category, with each airline setting fares within this range. The agreement must be approved by the Civil Aeronautical Board (CAB) and involved European governments. But few objections are expected, because the CAB has already stated it will drop its "show cause order" as to why U.S. airline participation in IATA is not in violation of U.S. antitrust laws if European governments agree to the zone concept (Wall St. J., 1-27-82, p. 6; 1-6-82, p. 28; U.S. News & World Report, 2-15-82, p. 8; J. Commerce, 1-26-82, p. 2A; 2-8-82, p. 2A).

A general rise in fares between Europe and the U.S. will reduce the travel options for lower-income groups. While Laker only represented 1.5% to 2% of capacity, in certain categories, notably the youth market, it carried 25% of the traffic. Laker's experiment did open up travel to working class people, especially in Britain. Twenty years ago, air travel was a luxury item confined to upper-income groups, and many airlines have tried to foster the image that this form of transportation is somehow different from other, more "modern" systems. Laker, along with others, showed that for many, no-frills transportation was all that was desired. While it is too premature to speculate on longer-term travel trends, the sociological implications could be significant. In the past five years summer travel by young students has been relatively easy, and the educational consequences were extensive. Understanding of European economic and political problems can receive a clarity and immediacy that far transcends any clinical analysis in a political science or history class. This sort of awareness can reap domestic political benefits. Acceptance of barge foreign policy options may seem more natural, and appreciation of differing cultures may bring moderation to the interpretation of foreign country actions.

The United States is a country of immigrants, and while many national and regional traditions have evolved, understanding of ethnic cultural heritage not only aids to the cultural versatility of this country, but reinforces faith in the country's basic strength—i.e., that a free political system can accommodate a variety of cultural backgrounds concomitant with a basic regard for all human rights. The decades since World War II have witnessed a dramatic increase in
International travel, bringing with it an heightened awareness of country interdependence—while the bankruptcy of Laker Airways may have little impact upon this overall tendency, it is equally important that governments realize that a return to a more centralized and elitist air travel structure can have repercussions beyond the profit and loss statement.


III. DOMESTIC ISSUES

A. VALUES - CANADIAN LABOR TRENDS

During upcoming contract negotiations Canadian labor unions, unlike their American counterparts, are not expected to modify their bargaining position in response to recessionary economic conditions. Whereas U.S. wage increases in 1987 are expected to average 3-5% (ct. 11% in 1980 and 1981), Canadian wage boosts are anticipated to outstrip inflation, which was 12.5% in 1981 (Bus. Wk., 12-21-81, p. 82; N.Y. Times, 2-7-82, p. 8).

While greater flexibility and a concern for job security is increasingly evident in American labor-management contract talks such as those recently concluded by the United Auto Workers (UAW) with Ford and by the Teamsters Union with the trucking industry, Canadian unions seem to be maintaining a militant posture and an overriding interest in wage issues. As a result of orders lost during the Stelco strike, which lasted four months, nearly one-fifth of the workers were not expected to be called back to work; yet substantial pay boosts were expected to accrue to those who were recalled (Wall St. J., 12-1-81, p. 19). In the depressed forest industry of British Columbia, members of the smaller of two unions rejected an industry proposal to forgo a 15% raise scheduled to take effect in June (Wall St. J., 2-17-82, p. 38). Canadian members of the UAW were considered influential in the breakdown of early contract negotiations with General Motors since they comprised a substantial portion of the 4% opposition in the vote to continue talks. As a means of stimulating car sales, Canadians prefer government action to lower interest rates rather than wage and benefit rollbacks to reduce labor costs (Wall St. J., 2-5-82, p. 7).

A number of factors underlie this contrasting labor response to an ostensibly similar economic situation. In many industries Canadian wages are lower than American wages. Between Canadian and American auto workers the difference is 20%, although part of this margin results from differences in currency values and government benefits. Canadian wage increases in general have been less than price increases for the last four years. Consequently, pressure has been building for higher-than-inflation settlements this year (Wall St. J., 2-6-82, p. 39).

A second development that may be shaping the divergent response of Canadian and American unions to current circumstances is the growing intra-union trend toward greater Canadian autonomy. In some unions formal international links have been completely broken. In 1973 the Canadian Paperworkers Union broke away from its U.S. counterpart because of objections to financial centralization. In 1980 the Canadian Energy and Chemical Workers split from the American-based Oil, Chemical, and Atomic Workers. In other unions such as the UAW and, to a lesser extent, the United Steel Workers (USW), Canadian concern for greater autonomy is manifested in increased tensions. Many Canadian steel workers, for example, criticize the centralized structures of their union
and of the AFL-CIO because they do not allow sufficient grass-roots democracy; yet the USW paid Canadian strikers nearly twice as much as it collected in strike funds from Canadian locals (J. Commerce, 11-2-61, p. 3A). Canadian auto workers object to the virtual imposition of terms of U.S. bargained contracts onto the Canadian industry. Dissatisfaction with their perceived status, which one Canadian UAW official described as "the tail of the dog," was apparent during a recent UAW meeting at which organizers neglected to display the Canadian flag (Wall St. J., 2-5-62, p. 7).

Finally, Canadian labor has developed in a different legal environment. Union rights to organize workers and represent them in collective bargaining were not legitimized by the Canadian federal government until 1948, whereas American labor achieved this legal status in 1935 with the passage of the Wagner Act. Moreover, the legal recognition of labor's rights in Canada was grafted onto a long-established legal restraint of labor's power to negotiate, embodied in a 1907 law requiring compulsory conciliation to prevent strikes (Canadian J. of Sociology 4(3):225-39, Summer 1970). Perhaps the reason Canadian unions today appear less moderate than their American counterparts is that they achieved political acceptance later and less conclusively. Hence, their defensive and adversarial traditions have had less time to mellow.

Two important points are to be drawn from this comparison of Canadian and United States labor trends. First, the contrast in labor symbolizes the uniqueness of the two countries. Although similar and interdependent, Canada and the United States have significant, albeit subtle, economic, political, and cultural differences. Second, union members, like most people, do not make decisions solely on the basis of economic rationality. Social and political factors are incorporated into their decision-making formula.


B. HUMAN DYNAMICS - TELECOMMUNICATIONS AND CULTURAL SELF-PRESERVATION

Recent developments in telecommunications have brought to focus the range of uses for state-of-the-art satellite communications in political and social activity. The U.S. Chamber of Commerce has begun to persuade its members to join a satellite television network that will enable the Chamber to coordinate lobbying efforts in Washington, D.C., on behalf of small business interests (Bus. Wk., 12-7-81, p. 46). Atlantic Richfield Corp. (Arco), a leading oil producer, has purchased a satellite that will link its facilities in seven cities across the U.S. for holding instant conferences (N.Y. Times, 8-12-81, p. D9). Industry Wk., 8-10-81, p. 85). The Mormon Church has plans to participate in a satellite network that will place Mormons worldwide in contact with their family's headquarters in Salt Lake City (Bus. Wk., 12-7-81, p. 46).

Last year the Indian government launched an extraterrestrial device for a satellite instructional television experiment that will broadcast educational fare (Variety, 5-6-81, p. 172). Satellite Business Systems, Inc. (SBS) has sought to sign up 5,000 small- and medium-sized companies to use its satellite-based communications network (Bus. Wk., 7-21-80, p. 155). These events provide a context within which to discuss the increasingly important role that communications in general and satellite technology in particular will play in the approaching decades.

The feeling that they are being threatened by external social change is a driving force behind the adoption of advanced communications techniques by organizations with traditional value systems. The Mormon
Church plans to use its satellite to communicate information and imagery to its followers worldwide in order to preserve its cultural cohesion. Thus telecommunications becomes a means of preserving itself outside the state of Utah, where the Church enjoys a considerable amount of protection by virtue of its control over political and economic life there. In an analogous move, the Chamber of Commerce has resorted to the satellite as a medium for political mobilization by offering lessons to local businesses, chapters, and Chamber affiliates on how to form political action committees and for informational purposes. This approach may become a popular means for groups to compete with each other as politics becomes increasingly less party- and more interest-oriented.

At the same time, however, in an environment where telecommunications play a significant role, patterns of personal interaction are capable of changing. Conventional electronic communications involve broadcasting aimed at as many people as possible, thus establishing an impersonal yet real relationship between the sender and every receiver. Closed-circuit broadcasting involves a narrower audience that can forge an identity for itself based on the shared experience of being exclusive receivers of a set of images from one source. Such was the effect on the 50 million people who viewed the Muhammad Ali-George Foreman boxing match broadcast on closed-circuit television from Zaire in 1974 (Sports Illustrated, 11-11-74, p. 60). Interactive communication, especially in teleconferencing, represents progress toward humanized electronic communication because the settings for personalized meetings can practically be reproduced, with the nuances of interpersonal interaction preserved intact (Industry Wk., 9-10-81, p. B3). With teleconferencing, businesses are above all interested in being able to gain the efficiencies inherent in personal contact while achieving savings in travel costs. Because the SBS and Chamber of Commerce are convinced of the advantages that can be achieved through the use of telecommunications, they are willing to absorb significant losses in order for their system to succeed, in the case of the former so that it can be marketed early, and for the latter so that it can be utilized politically.

The effects of this proliferation of telecommunications are potentially far reaching. If interest groups with geographically dispersed components can afford satellite communications, policymaking could be revolutionized because lobbying could be conducted more rapidly and because more groups could participate in the process. That AT&T was able to purchase a satellite for $6.5 million means that smaller firms may no longer be able to compete with larger ones because the cost differential between teleconferencing and the more expensive personal meetings will be significant. As a consequence, larger firms will be able to conduct business more efficiently and out-compete smaller ones. Resort to the avant-garde electronics of telecommunications by such organizations as the Mormon Church creates a paradox in the attempt to preserve traditional ways through the use of advanced technology. Despite the irony, similar groups may turn increasingly to modern communications to maintain and strengthen their sense of community. The potential of interactive patterns to change the very character of the group remains, however, for it cannot be stated whether the conservative goals of a given group would be undermined by the very use of electronics. The capacity of a group to be selective in its acceptance of externally originating changes—a capacity not always known—will determine whether its utilization of satellite telecommunications will succeed or fail in its intended use. A question also exists about whether closed-circuit broadcasting will create cross-national identities that will diffuse international tensions or whether it will result in the development of new tension-laden loyalties. In the wider sense, however, a political trend away from authoritarianism and oligarchy and towards democracy may follow the movement away from direct broadcasting to electronic interactive communication. While direct broadcasting can be used for propaganda relay and hence has the potential to be an instrument of authoritarian rule, interactive communication can allow and even encourage participation and equality of input in public policymaking.
C. RESOURCES - REAL ESTATE MARKET CHANGES

The American ideal of every family owning its own home has proven more elusive in the past decade. Rising values in excess of the inflation trend and rising finance costs have both served to curtail the ability of first-time buyers to enter the market. It has been estimated that high interest rates have made the average new home affordable for only 5% of the nation's families. The present recession has badly affected the construction industry. The National Association of Home Builders (NAHB) expects 1.3 million new home starts in 1982, up from 1.1 million in 1981, but still well below the 2 million in 1978. According to NAHB officials, 250,000 of the nation's 1.2 million builders have gone out of business, with sales in 1981 at their lowest level since 1963. The slight improvement in 1982 presumes, however, that mortgage interest rates will drop from 17% to 14% by year-end (U.S. News & World Report, 7-25, 1981; Chr. Sci. Mon., 6-22-82, p. 16; Daily News St. J., 6-26, 1982, p. 2; 7-11, 1981, p. 4).

To cope with these depressed market conditions, creative financing and innovative structural designs have been devised to coax reluctant consumers to buy. The use of some form of creative financing occurs in more than 60% of all existing home sales, much of it coming from the builders and sellers themselves. Many of these arrangements reduce the effective mortgage rate to buyers by 3% to 5% from rates quoted by financial institutions. Developers have been using modular construction techniques and more high-density developments to reduce prices and encourage first-time buyers. These measures have encountered resistance from established residents who object to the close proximity of cheaper housing projects. To help overcome this obstacle, the Department of Housing and Urban Development in late January established a clearinghouse to encourage transmission of ideas for modifying zoning and building code rules that block such housing (U.S. News & World Report, 2-6-82, pp. 77-81; Chr. Sci. Mon., 1-22, 1981, p. 16).

Inflation has made fixed-rate, fixed-amount mortgages unsuitable for many lenders, with average mortgage rates lagging behind inflation over the past two decades. In March 1981, the Federal Reserve Board changed its regulations to allow federal savings and loan associations and mutual savings banks to grant fully flexible mortgages. While residential mortgage lenders view this increased flexibility as necessary, the plethora of new instruments has confused and frightened buyers. Flexible rate mortgages tend to increase uncertainty and will decrease the return on residential housing investments. During periods of high inflation, with inflationary expectations being factored into interest rates, the burden on households can increase substantially. While not wholly the result of high interest rates, the percentage of income allotted to mortgage payments has almost doubled between 1964 and 1980, from 18% to 34% (Real Estate Issues, pp. 19-38, Fall/Winter 1981; Real Estate Today, pp. 13-19, July 1981).

The variety of arrangements in housing construction and sales agreements is a reflection of changes in underlying economic conditions and may be viewed as a move toward a more efficient structure. In some respects the wide variety of alternatives does pose greater demands on financial analysis, but over time the range of choices may decline as less efficient methods are weeded out. Home buyers may now include in FHA insured loans the costs of appraisal and counseling on financial


IV. NORTH AMERICA

CANADIAN-LDC ECONOMIC RELATIONS - Prime Minister Trudeau appears about to accomplish several of his major domestic policy objectives. Constitutional reforms are likely to be enacted despite long and vigorous objections from many of the provinces. Greater national control of energy through the National Energy Program is progressing rapidly without excessive disruption of the industry. Now that these domestic goals are near realization, one major new thrust of Canadian policy under Trudeau is likely to be in international relations. In particular, there are reasons to expect a major Canadian effort to increase trade ties with the world's less developed countries (LDCs).

One major reason for such a development is related to Canada's self-image. In the past decade Canada has attempted to differentiate itself from the United States. In so doing it has emphasized certain features common to smaller and/or developing countries. It has long maintained a degree of political autonomy, particularly in the United Nations, where its voting record over the past 30 years is closer to that of Scandinavia, Belgium, and the Netherlands than to that of the United States and Great Britain (International Perspectives, May/June 1980, pp. 21-28). In the Commonwealth Caribbean, Canadian foreign aid fosters diversified development rather than dependence because it is directed largely toward infrastructure and human resources rather than toward extraction and export of raw materials (Canadian Public Policy 6(4):628-41, Autumn 1980). More recently, Canada has emphasized the "dependency" aspects of its close relationship with the United States, blaming its domestic economic over-reliance on the primary sector and the underdeveloped state of its manufacturing and technology sector on its interdependence with a much larger trading and investment partner.
Canada may be able to capitalize on this image to establish friendly trade relations with developing nations and thus gain access at an early stage to the potentially vast markets of the "South."

Another reason for increasing trade with LDCs pertains to Canada's economic goals. In order to restructure its economy away from mineral and agricultural production, it seeks to develop high technology industries, such as word processors and photocopying. The Canadian Development Corporation, a quasi-public holding company with $8 billion (Can.) in assets in oil, gas, petrochemicals, and biomedical supplies, has agreed to acquire a majority interest in Savin, thereby expanding its holdings of word-processing equipment (N.Y. Times, 2-14-82, p. 4F).

Because its major trading partner, the United States, already has a highly developed technology industry, Canada may find it easier to market these products in the less-competitive environment of LDCs. Other economic complementarities exist between Canada and developing countries. Canada already purchases 40% of its imported oil from Venezuela (Latin American Times, 10-81, p. 12). It has a comparative advantage in public transportation equipment such as subway systems, which are much needed in LDCs where the poor are moving to the cities in great numbers. Because of its vast distances and fairly recent development of many resources such as hydroelectric power, it can offer resource-rich LDCs a variety of technology to develop and refine their own resources. Canada can also sell its agricultural surpluses to countries like Mexico, whose current level of economic development has resulted in structural imbalances between the manufacturing and farm sectors so that domestic agricultural production is no longer sufficient to support the population as a whole.

A final factor pertains to Canada's political structure. Compared to the United States, the Canadian government plays a much larger role in the economy. This attribute, typical to LDCs, may make the development of trade relations easier than it is for Americans, who are not accustomed to such public/private-sector relations. Second, Canada's parliamentary system and recent political changes that formalize the concentration of power at the federal level will facilitate the realization of Trudeau's vision. Even more an American president to entertain such a vision, he would have a much harder time attaining it because of the dispersed nature of decision making in the U.S.

If Canadian policy develops along the above lines, there are both good and bad implications for the United States. On one hand, relations between the United States and Canada, which in recent years have been increasingly strained, could be improved. Increased identification of Canadians with developing nations could speed Canada's attempts to acquire a distinct national image. Greater Canadian confidence in this regard could diffuse one issue in bilateral relations—the cultural predominance of the United States, especially in the media. Similarly, if Canada were able to increase its exports of technological and manufactured products substantially, its productivity levels could improve through economies of scale. Canada might be able to eliminate some of the protectionist measures which have heightened commercial friction with the U.S. On the other hand, if Canada succeeds in establishing closer cultural and trade ties with LDCs, the United States, when it begins to cultivate markets in the LDCs, may find itself competing with a well-entrenched Canada. Such competition would no doubt refuel tensions between the two neighbors.


PRICE INSTABILITY IN COMMODITIES MARKETS - The example set by OPEC has renewed efforts by producers of other raw commodities and minerals to reach agreement on mechanisms for stabilizing prices. The limited success of many of these negotiations and theoretical discussions indicates the complexity of cartel formulation. While in certain mineral categories (nickel, tin, cobalt and copper) a major portion of known reserves are in the less developed countries (LDCs), these LDCs have not, except in the case of tin, been able to coordinate effectively to reduce price fluctuations. Sound theoretical reasons can be cited for this failure. For any cartel to be successful, demand needs to be price inelastic, with no large producer outside the arrangement. Furthermore, as prices move above cyclical trends, member producers have a strong incentive to expand production, thus defeating the quota restrictions within the combine. These conditions are sufficiently demanding, and most minerals and mineral-producing countries so far from fulfilling them, that movement toward cartelization of major mineral production is unlikely.

It is true that we witness considerable price instability in commodities and that this does cause problems for developing countries. In the short term, supply of and demand for primary commodities tend to be unresponsive to price changes (i.e., they are inelastic). In consequence, their prices tend to fluctuate widely as conditions affecting supply and demand change. The present glut illustrates this point admirably. Attention has been focused on the area mainly because of recent demands articulated by the LDCs in various international forums. Three-quarters of developing country exports are primary products, with at least 25 countries dependent upon one commodity for 50% of their export earnings. Uncompensated by private or public action, fluctuations in exchange earnings can give rise to substantial adjustment costs. If aggregate demand is lowered to bring the balance of payments back into balance, excess capacity and unemployment will result. Furthermore, if needed capital goods imports are reduced, the pace of economic growth will be constrained. The greater the instability of foreign exchange earnings, the greater the average level of optimal foreign reserves needed by the central bank. Savings may thus be diverted to a more liquid but less productive form.

The search to find mechanisms to alleviate these costs has focused on a number of different options. One route has dealt with the general efficiency of raw materials markets. Unless information is generated and processed efficiently, overly optimistic or pessimistic waves can amplify price fluctuations. Producers may fall short of rational expectation norms insofar as they give too much weight to recent price behavior in forming their expectations of the future, thereby generating excessive and unwarranted cycles in output. The solution in this case would be to seek means to improve coordination and information transmission between buyers and sellers. An alternative proposed by the developing countries is the establishment of buffer stocks which could be bought when prices decline and sold when they rise. The UNCTAD Integrated Commodity Program, or common fund, is a multilateral example of this approach. The common fund, covering 18 raw materials, is designed to economize on the resources that otherwise would be required for this purpose. If the price of tin were to go up and the price of copper down, resources obtained by selling tin could be used to purchase copper. Initial proposals were for a fund of $3 to $6 billion.

A major problem with this approach is that prices of most commodities tend to move together. Because the fund would thus have to remain a buyer or seller for protracted periods, skeptics argue that a fund of the scale proposed could not effectively stabilize prices. An underfunded program could in fact destabilize prices further, giving rise to even larger fluctuations. Moreover, past performance of individual buffer stock agreements increases the skepticism of a more general nature. Buffer stock managers still face the major problem of predicting the long-run equilibrium price around which actual prices are to be stabilized. Often these stocks have been instituted with little regard for the welfare and distributional effects of international price

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stabilization. Only in the case where supply shifts are the cause of price inelasticity would price stabilization increase the total revenue and welfare of the developing countries.

Despite these drawbacks, LDCs continue to push the concept of a common fund. Symbolism plays as important part; and the issue, which has in many respects become a cornerstone of the North-South dialogue, is often seen as part of the overall drive for increasing resource transfers to the developing world. What might prove more productive is concentration, at the multilateral level, on market-information transmission aspects and on a mutually agreeable system of enforceable contracts. Political uncertainties together with past expropriations and abrupt changes in tax regimes have all affected investment in mineral exploitation in the LDCs. In terms of geological promise, exploration expenditures have been weighted against the developing countries, with the percentage of development expenditure in the LDCs falling continually since the early 1960s. Initiatives in this area may not only improve overall growth and stability in mineral export earnings, but may also forestall premature substitution by importing countries.


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