stabilization. Only in the case where supply shifts are the cause of price instability 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 an 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.


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 national 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.

Facts and details of events addressed in Briefings are gathered through a scanning of major daily newspapers and weekly periodicals, which are cited throughout each article. Sources of related policy and disciplinary material appear in a listing following each article. The purpose is to link facts with policy implications and academic points of view in order to present an integrated and in-depth approach to current issues. Views expressed are not necessarily those of the Rusk Center.

1. Fiscal and Monetary Policy

A. Fiscal - Agenda Control through Budget Setting

Public, executive branch, and legislative attention is now focused on reducing the public deficit because of its perceived impact on taxes, interest rates, capital investment, and business expansion (Bus. Wk., 3-15-82, p. 244). Last year, when the 1981 deficit was projected to be $40 billion rather than over $100 billion, the emphasis was on systematic reduction of specific agency budgets to curtail the growth of the federal government and its involvement in the private sector (Bus. Wk., 8-17-81, p. 131; 9-14-81, pp. 30-34). In a few instances, particular agency programs like workplace safety laws and air fare regulation were targeted for elimination or reduction because of their unacceptable impact on particular private and state activities, their dubious utility in producing public goods, or their potential for pre-empting private initiative (Bus. Wk., 9-14-81, p. 38). Conflict among interest groups was great when program changes were advocated on ideological rather than strictly cost-cutting grounds (Bus. Wk., 7-20-81, pp. 58-62). These clashes highlighted problems relating to the respective roles of the president and Congress in initiating radical changes in existing legislative programs with specific goals or broad mandates.

While public attention has shifted to limiting entitlement increases and scheduled tax deductions to control the deficit, percentage decreases in the general budgets of many agencies took effect last fall. These decreases, coupled with the selective appointments of senior officials and with White House criticism of particular programs, are already reshaping agency agendas, practices, and structures without a concomitant amendment of authorizing legislation and implementing rules. Mass media articles over the past six months about the Environmental Protection Agency, the Consumer Protection Agency, the Federal Trade Commission (FTC), and the Public Broadcasting Service make clear the impact presidential appointments and the general budget process can have upon the content as well as the scope of specific programs (Bus. Wk., 10-27-81, p. 179); 2-22-82, p. 34; 3-15-82, p. 341). They also suggest that
qualitative changes in programs transferred to the states will result primarily from budget realignments rather than legislated realignments (Bus. Wk., 2-15-82, pp. 134-59; 2-8-82, p. 27). Unfortunately, the episodic nature of these articles masks the fact that when certain levels of budget reductions are applied to agencies diverse in size and function, the impact is often predictable, with the result that government officials have the opportunity to change legislated programs without facing public accountability.

It is now accepted wisdom that an agency's personnel composition, financial resources, and structure for integrating those resources are important determinants of how legislation is implemented (Bus. Wk., 5-18-81, pp. 164; 10-12-81, p. 179; 12-14-81, p. 31). For example, temporary or appointed personnel will normally condemn greater risk-taking, change direction more often, be constrained less by established routine, and possibly commit a greater number of mistakes, while permanent managers will favor "play-it-safe" decision making. Consequently, the design and implementation of regulations necessitating stable application over long periods, strict compliance with stated principles, and a minimum of processing error are best achieved with civil servants. Rotating and appointed staff may be preferable when regulations must minimize administrative costs, be flexibly applied, and undergo frequent modifications to cope with erratic or fast-moving developments. The size, stability, and distribution of financial resources also affect programs. An agency with a large budget can often subsidize initiatives without supporting legislation, and reliable budget expansion is necessary to maintain a quality staff for conceptualizing and implementing sound programs. If the budget is dispersed among many programs, however, an agency has difficulty assembling the management depth to execute a new, complex program or to earmark planning funds to capitalize on long-term opportunities. In essence, revenues tied directly to specific agency outputs allow little room for independent agency initiatives not contemplated and supported by new legislative appropriations.

Those dynamics of public administration, when superimposed on last year's budgeting and staffing by the president and Congress, portend little expansion of federal regulation even though expansion may be possible under existing legislation as well as consistent with public sentiment (Bus. Wk., 1-11-82, p. 419; 2-22-82, p. 34). The 10-198 budget cuts in nearly all areas have deprived agencies of strategic resources to support new initiatives, and presidential appointees have resisted cooperation by the bureaucracy in favor of reduced government. Consequently, some jurisdiction of present agencies like the FTC and the Civil Aeronautics Board has been surrendered voluntarily, and circumscripted enforcement has been demanded by Congress (Bus. Wk., 11-9-81, pp. 40# & 70-79; 1-18-82, p. 34; 2-22-82, p. 79; 6-17-82, p. 216). Additionally, new standards for evaluating regulatory benefits, like Executive Order 12291, make advocating expansion professionally untenable. Presumably, the restraints on these agencies will enhance the productivity and competitiveness of U.S. corporations in international trade, while market pressures and the wider dissemination of information will act as surrogates for public regulation in the consumer area.

The primary dilemma of this budgetary and programmatic contraction of public services is its dampening effect on training and recruitment of high quality civil servants. Management of large-scale public programs, the disbursement of largesse, and regulatory functions is complicated; and errors in judgment can be costly in terms of money, public confidence, and citizens' rights. If current events cast uncertainty on careers in civil service, quality educational programs in public administration will not be maintained, and superior students will not be recruited. This could lead to mediocrity in the civil service that will encourage a complacent attitude in the executive branch toward the traditional short-term goals of elected officials. A massive transfer of federal programs to state governments can only amplify these problems.

Public acceptance of the linkage between interest rates and the deficit, congressional fear of major tax increases in an election year, and the president's insistence on increased defense spending to cope with escalating hostility in the world environment will continue to cause reenforcement of the federal public sector. While some may believe this a salutary trend, the nation's long-term health is not well served.


**B. MONETARY - SEC PURSUES EFFICIENCY IN CAPITAL MARKETS**

The availability and cost of capital are most frequently associated with Federal Reserve Board activities, but recently the Securities and Exchange Commission proposed several initiatives which promise to have an enduring impact on the nation's monetary affairs. Filing requirements pertaining to disclosure are being altered to reflect actual investor needs. Use of street names for stock registration may be discouraged to reduce delays in dividend disbursement and facilitate communications between corporate management and share owners on issues like take-over bids (Bus. Wk., 1-25-82, p. 34). Finally, larger corporations may, on a trial basis, register securities for distribution within two years of the issuing company's discretion—a procedure known as shelf registration (Federal Register 46(159):42001-14, Aug. 15, 1981; N.Y. Times, 2-25-82, p. 37). While these proposals are quite disparate, they all will enhance the efficiency of information and capital exchanges between investors and U.S. industry.

Major impediments to a stable monetary base are erratic investor behavior and an increased preoccupation with the value of money rather than the underlying worth of goods and services. SEC regulation for four decades has sought to ensure that all types of individuals could invest with full knowledge of factors affecting their investments' inherent value. Simultaneously, the intermediaries in this exchange process—stock brokers, banks, accountants, and lawyers—developed structures and arrangements to facilitate the capital transfer process as well as build dependencies that would make their service activities profitable. Thus, expanded SEC control was paralleled by the growth of these intermediating services that helped to create informed, effective securities markets and also provided a critical check on excessive or imprudent SEC regulation. Now, however, political sentiment against the seeming exponential growth of regulation and government spending provides a more meaningful check on SEC expansion, and electronic technology can streamline many securities market functions (Bus. Wk., 2-8-82, p. 37). Sentiment is also arising among investors and corporations against practices of market intermediaries that raise the cost of capital acquisition without providing offsetting benefits or that compromise their fiduciary responsibilities (Bus. Wk., 11-16-81, p. 173). These practices, which have eroded public trust in some securities market structures and practices, now provide the incentives for SEC initiatives noted earlier (Bus. Wk., 7-20-81, p. 59; 11-16-81, p. 56).

The public debate concerning adoption of these SEC proposals has highlighted the changes occurring in the distribution of corporate information, dividends, and securities. Further, media coverage of the initiatives suggests how industrial reorganization and modern electronics will restructure securities markets (Bus. Wk., 11-16-81, pp. 140-46). For example, desk registration poses a direct threat to the pivotal position of investment bankers like Morgan Stanley in syndicating nationwide securities distributions, because large corporations will be able to obtain low-cost distribution of new securities issues directly through individual brokers (N.Y. Times, 3-21-82, sec. 3, pp. 15; Wall St. J., 2-22-82, p. 16). When possible, corporations are also likely to circumvent the underwriting process, with its inherent delays, in order to release securities at an optimum point in a rising market. Large corporations like Sears might even promote mass marketing through its own securities outlets and retail stores (Wall St. J., 2-25-82, p. 7). While such competition might maximize the capital obtained for securities issued by major firms, Morgan Stanley contends it would impair the
ability of small- and medium-sized companies to obtain national distributions because these firms cannot go directly to outlets. A similar conflict between established intermediaries and corporations has arisen over limits on the use of street names for stockholdings. Banks and brokers contend that street names are necessary to preserve the anonymity of stockholders and to facilitate rapid stock transfers in the absence of electronic transfers (Bus. Wk., 1-25-82, p. 34). Medium-sized businesses, however, argue that the use of street names inhibits timely access to their shareholders on critical issues, such as proposed takeover bids, and unnecessarily delays dividend distributions to shareholders, allowing street name agents to make use of the dividend funds during this 10-to-21-day float. Clearly, the dispute will intensify as the application of technology makes possible a richer flow of information between corporations and their shareholders.

From a resource standpoint, the proposals are important experiments for reducing the time and costs of capital transfers between investors and corporations. As changes in corporate ownership and dissemination of corporate information benefit become faster and less expensive, investors will be able to participate more effectively in the market, thus obtaining the best values. Similarly, corporations will be encouraged to provide timely information about their activities and attain investment capital in ways that minimize intermediary costs. With their continuous need for new capital, growth-oriented corporations that have close relationships with nationwide financial-service and information-transfer networks will benefit; and their competitiveness in international markets will improve. The impact of these proposals on medium and small companies, however, is unclear. While they are the most efficient creators of jobs and technological innovation, they will not, in most instances, be able to attain capital at a lower cost, since they have no access to alternatives to the present marketing structure and cannot normally benefit from the ability to select the precise timing of a securities release. Moreover, the new disclosure provisions place the greatest filing demands on small, rapidly changing enterprises.

The SEC proposals are not ultimate adaptations of federal securities regulation to changing industrial structures and low-cost, computerized telecommunications and information processing. Nevertheless, they show a determination to encourage evolution in the securities marketing process that will reflect technological innovation, industry's need for lowest-cost capital, and increasing public skepticism about the motives of intermediaries who have substantial fiduciary obligations but face uncertainty about their own future profitability.


II. INTERNATIONAL ARRANGEMENTS

A. ECONOMIC/COMMERCIAL - STATUS OF THE EEC

As the foreign ministers of the European Economic Community (EEC) prepare for their summit meeting in Brussels at the end of March, just days after the 25th anniversary of the signing of the Treaty of Rome, which created the EEC, much reevaluation is occurring, both in and out of the Community, of its present status and future prospects. The current internal problems weighing most heavily on the EEC—relativ...
more appears to have been shelved temporarily. The issue, which is the current manifestation of the more fundamental problem of farm subsidies, can be handled only through a process of negotiations involving much jockeying for position among member nations of the EEC. Because virtual unanimity must be achieved within the Council of Ministers to reach a decision, the process has become quite lengthy in cases of much import; and although the decisions are not totally unacceptable to any one country, they may fail to meet the pressing needs of the group.

At the same time that strong differences exist among member EEC states over the relative advantages to each of the current farm policy and over what should be done to keep the costs of CAP from becoming unmanageable, the Community is maintaining a united front abroad over the same issue. It is threatening to raise its protectionist walls even higher and is following an increasingly aggressive policy of promoting the export of agricultural products through export subsidies. Because these actions could prove particularly harmful to the U.S., Secretary of Agriculture John Block traveled twice to Europe in 1981 for discussions with EEC and national leaders. Talks have continued this year as the possibilities of higher tariffs on U.S. food and feed-grain imports became more real (Foreign Agriculture 20(3):4-7, March 1982). The developing conflict between the EEC and other nations over agricultural products results from the disagreements within the Community concerning CAP that are so difficult to resolve.

Two unrelated historical events have been particularly fateful in informing internal EEC relations today. One occurred in 1964 at the Kennedy Round of negotiations when the EEC Commission was trying to reach agreement on an initial common agricultural policy before moving to the issue of industrial free trade. Contrary to popular belief, a deal was not struck between France and Germany whereby French farmers would be enriched in exchange for free trade for German industrial goods (Economist, 3-20-82, pp. 11+). Rather, Germany, whose grain farmers were among the most inefficient in the EEC, refused to cooperate in the CAP until high price supports were established for cereals. Because cereals are basic to so many foods and because their pricing structure was the first to be established, the impact of providing supports adequate to maintain inefficient grain production has had a far-reaching impact on the development of CAP and its importance to the EEC. Whereas the authors of the Treaty of Rome envisioned an agricultural policy that would diminish in significance over the years, the opposite has occurred, with the costs of CAP now accounting for three-quarters of the EEC budget (Economist, 3-6-82, pp. 51+ & 52+; 12-27-82, pp. 49+).

The other event took place two years later in 1966, when France's President de Gaulle extracted from the EEC the conditions of the Luxembourg agreement, which in essence gave member states a de facto right to veto any decision deemed to be against its vital national interests. The agreement murdered any hope that decisions would eventually be reached by majority vote, as set out in the Treaty of Rome. It also meant that henceforth the tendency for EEC countries to think in terms of their national interest would be given added impetus at the expense of recognition of overall community needs.

The effects of these two events are now being felt both within the EEC and on the world scene. Countries which have long benefited from the CAP are loath to surrender their advantage, and their position is made more firm by pressures from their respective farm lobbies. Stress is thus created within the Community as England becomes more adamant in demanding compensation for its surplus payments into the EEC budget because of CAP mechanisms. The effects of recession have added to the general strain on the Community (N.Y. Times, 3-21-82, pp. 11; Economist, 2-13-82, pp. 47+).

Opinion is divided about whether current problems within the EEC are sufficient to cast doubt on the future viability of the organization. Some observers have noted with alarm the seeming inability of the organization to deal effectively with critical issues and the growing tendency of member states to work for national rather than Community advantage, as the French have recently appeared to do (European Trends, no. 701-12, Feb. 1982; Economist, 2-6-82, p. 49; 3-13-82, p. 51; Europe82, Jan-Feb. 1982, pp. 14+). The Community's ability to assure
that its members will comply with rulings by the Court of Justice has also been questioned, and popular support for the Community may be on the decline (Economist, 3-20-82, pp. 54). On the other hand, judgment against the Community should not be made in haste. Despite problems with decision making and with the CAP, the necessity to continue negotiations toward agreement on farm policy has contributed much to the EEC's vitality, so evident in the united front it presents to the rest of the world. Clearly, the concept of a United States of Europe, which many had hoped would grow out of the Treaty of Rome, will not be realized in the near future, if ever. Clearly also, some progress will have to be made toward restructuring the CAP in order to keep it from becoming uncontrolable. These events aside, however, the achievements of the past 25 years have truly been remarkable. The EEC has provided its members with a long period of sustained economic growth, and the experience of working together to reach mutually desirable ends has become a deeply ingrained aspect of European political and economic life. That is not likely to alter in the foreseeable future.


Agriculture and the European Community. J. S. Marsh and P. S. Swam-


B. POLITICAL/MILITARY - NATO-WARSAW PACT RELATIONS

Though recent attention paid to East-West relations has focused on tensions within the Atlantic alliance, on the international implications of the imposition of martial law in Poland, and on the imbalance of theater forces in Europe, less mention has been made of the long-term future of superpower relations with regard to Europe's future. Changing world political trends and trade patterns and the increasing importance of domestic priorities are undermining the assumptions upon which NATO and the Warsaw Pact were created and are providing the groundwork for a changed status for Europe. Recent events exemplify tensions within the two blocs that prevent either from advancing agreed-upon policies and which portend new political relations fundamentally different from the present ones. Severe differences within NATO over defense burden-sharing, high U.S. interest rates, and exchange rate policies have been exacerbated by the allies' inability to agree on a concerted response to the Polish crisis (Bsns. Wk., 2-22-82, p. 60; Wall St. J., 2-17-82, p. 25; N.Y. Times, 2-15-82, p. 14; Newsweek, 1-18-82, p. 40; Economist, 1-16-82, pp. 33 & 54). Likewise, in the Warsaw Pact, the Soviet Union has been financing Poland's debt to Western banks by selling large amounts of its gold reserves, and it is presently staging a policy battle within the Juruzelski regime over the amount of pluralism to be permitted in Poland: both unprecedented terms of events (Economist, 1-16-82, p. 51; Wall St. J., 3-18-82, p. 14).

Though NATO and the Warsaw Pact have been successful alliances inasmuch as they have prevented war and have maintained stability among their member countries, interests between leaders and followers in both alliances have diverged unmistakably over the past decade. While NATO was built for the defense of Europe against Soviet attack, the Warsaw Pact was founded in response to perceived Western hegemonic ambitions against the Soviet Union. Yet the "new world" of East Asia has been successfully called into existence to redress the balance of the "old world" of the West in the form of China's emergence from self-imposed isolation. This raises questions about Europe's utility as a focal point of East-West contention. While U.S.-Soviet rivalry is shifting to the East, Europe has been developing a political identity based on economic integration and trade interdependence.

Though the concentration of superpower attention in East Asia is geopolitically motivated, the greater interest that West and East Europe take in each other also arises from the development of commercial interdependencies. In place of its former status as a grouping of secondary powers, Western Europe has matured since the end of World War II to the
extent that it has become a market competitor with the U.S. The growth
of the European Communities is an obvious example. Industrial growth
has resulted in part from the fact that funds have not been devoted to
defense because of assured U.S. protection. The pattern continues
today: West Europeans prefer being defended by the application of the
doctrine of mutually assured destruction rather than that of "flexible
response," which would require them to finance and participate in de-
defense at all levels of potential conflict, except the strategic one. On
the eastern side, economic integration of the Soviet and East European
economies has been proceeding slower than expected. The "socialist
division of labor" has been frustrated in part because Soviet oil ex-
ports to East Europe have been curtailed, forcing those countries to
look elsewhere for energy supplies and disrupting socialist interdepen-
dence arrangements. In an effort to enhance economic efficiency, East
European nations have been emulating Western economic systems: Hungary
has the most decentralized economy in the Warsaw Pact, while worker
rights and production incentives were major items on the Solidarity
agenda. Trade interdependence between the two blocs defies the barriers
characteristic of inter-bloc hostility: while the Soviet Union relies
on western Europe for manufactured goods, high technology, and hard
currency, West Europe relies on East European and Soviet markets and
Soviet natural gas. In 1981, East bloc exports to the West were worth
$42 billion, while West European exports to the East were worth $39
billion (Bus. Wk., 2-22-82, p. 60).

Of more general importance than the economic and political reasons
for the divergence of interests between the superpowers and Europe is
what the latter believes its position in the world should be. Europeans
feel a sense of powerlessness because of the loss of Europe's past glory
on the world stage, because of an arms race in which they neither par-
ticipate nor feel they can affect, and because of the perceived possi-
ibility of another war being fought on their soil. The unification of
Germany—the same goal of permanent strategic stability—must be
accomplished so that Germany will not be able to press expansionist
claims or, in particular, expand eastward, threatening the Soviet Union.
Though Europe feels it should not be subordinated to either superpower,
G. SOCIAL/CULTURAL - U.S. AND AFRICAN RELATIONS

Not only is U.S. trade with Africa quite small (3% of exports and 5% of direct foreign investment) but U.S. understanding of the socio-cultural diversity of the continent is also limited. This country’s ideological fixation on the global Soviet threat has meant that successive administrations have had difficulty relating to complex regional situations. A strong political theme running through many Organization of African Unity (OAU) meetings is the desire to foster a distinctive ethnic and cultural identity. This manifests itself in a variety of ways, some of which may not parallel U.S. cultural traditions or concepts of fair play. For example, at the urging of many African nations, at a recent meeting of the UNESCO-sponsored International Communications Development Program, 35 country representatives unanimously approved plans for a pan-African news agency. The goal of the proposed agency is not to enhance commercial activities, but to carry out the social mission of improving Africa’s image abroad (Bus. America, 1-29-82, pp. 31; Africa Research Bulletin, 1-31-82, p. 6350).

The concern for an ethnic and cultural identity was also expressed during the first pan-African film symposium in Mogadishu, Somalia, in October 1981. There was strong recognition that cinema has an important role to play in the socio-cultural development of the continent, but fears were expressed that the western monopoly of production and distribution would not allow the emergence of cultural independence. Although the suggestion was mooted that African countries should impose quota systems on the importation of films to encourage local production and showing, the general consensus was that indigenous film production should sustain national aspirations and OAU ideals. When Pope John Paul II made his recent tour of Africa, he repeatedly expressed the hope that Africa would remain faithful to its values and traditions and not “lose its soul” to foreign influences (Africa Research Bulletin, 2-28-82, p. 6367; Africa, 1-82, pp. 62+).

While it may be legitimate to question whether a distinctive continental culture is possible with such a diverse group of tribal backgrounds, western policymakers should recognize the strong desire for indigenous African self-identity. The black community in the U.S. appears to recognize this aspiration and consequently may reap benefits in both the economic and political spheres. For example, the OAU recently purchased a $1 million building to serve as its headquarters in New York with financing arranged by the Freedom National Bank of Harlem (Africa Research Bulletin, 1-31-82, p. 6350).

Business missions such as those headed by David Rockefeller and the secretaries of Agriculture and Commerce will build trade and investment ties, but this solitary focus will not ensure enduring relationships for the U.S. in Africa. Promotion of cultural exchange programs, together with a channeling of a portion of aid extended toward socio-cultural activities should foster greater understanding and add depth to business interactions. The French have been very active in assisting the francophone African countries in areas such as film making, media expansion, and indigenous art and literature. In a continent where 90% of the population lives in information-starved rural settlements, schemes designed to expand media coverage and mass communications should be particularly welcome. Appropriate action is already being taken at the university level, with the University of Ghana offering a two-year course in “rural journalism” which has special emphasis on the agricultural sciences. Western development theorists both in and outside the academic community have commonly relied in basing development plans on false assumptions about social or community motivations for change when strong vested interests exist for maintaining traditional ways. Increasing the possibilities for cultural interchange should reduce these misconceptions, with attendant benefits accruing to economic and political interactions (Africa, 1-82, p. 57; N.Y. Times, 3-10-82, p. 4).


III. DOMESTIC ISSUES

A. VALUES - THE UNITED STATES AND ECONOMIC NATIONALISM

Two legal disputes involving the restriction by host countries of foreign investment are currently taking place: one involves a United States complaint against Canada under the General Agreement on Tariffs and Trade (GATT); the other involves American employees of a Japanese branch plant operating in the United States. Though in some respects quite different, the two cases are similar in principle. An analysis of their common traits is pertinent to American attitudes and official policy regarding international economic relations.

In mid-February the U.S. began formal complaint procedures against the performance requirements of Canada's Foreign Investment Review Agency (FIRA). Established in 1974, FIRA evaluates foreign investment projects, often insisting that foreign investors purchase certain quantities of intermediate goods from Canadian suppliers or export a portion of new production. Although GATT is a trade, not an investment, agreement, the U.S. maintains that the case falls within GATT jurisdiction because FIRA's policies have trade-distorting effects (Wall St. J., 2-16-82, p. 8; 2-22-82, p. 33; N.Y. Times, 2-18-82, p. D18).

While the American complaint is channeled through GATT procedures, the U.S. Supreme Court will be deciding on a complaint by 12 female employees against Sumitomo Sohji, a wholly-owned Japanese subsidiary operating an export-import concern in New York. A U.S. district court upheld the women's charge that Sumitomo violated Title VII of the 1964 Civil Rights Act by failing to hire women for any executive positions. In an appeal to the high court, the Japanese firm claims it is exempted from the act by a 1955 treaty which allows Japanese firms to hire at their discretion Japanese nationals as executives and technical specialists (Wall St. J., 2-18-82, p. 31; N.Y. Times, 2-31-81, p. 99).

The GATT complaint is between two governments and is being reviewed by a quasi-judicial international body. The Sumitomo complaint is between two private groups, employers and employees, and is being heard in a domestic tribunal. Such differences notwithstanding, both cases share one fundamental property: private sector interests of one nation are at odds with public sector policy in another.

Both cases involve private businesses even though business interests are not directly represented in the GATT complaint. In some respects the object of public policy differs. FIRA's restrictions on and modifications of foreign investment are intended to alter certain domestic conditions, such as Canada's heavy concentration in the primary sector, and to give Canada greater control over her economic destiny. The 1964 Civil Rights Act addresses certain domestic social problems rather than any economic dysfunctions arising from foreign investment. With respect to political dimensions, however, the two national policies have greater similarity. Both are grounded on national legislation and thus represent the popular will insofar as large democracies are capable of expressing the majority intent. Moreover, both deviate from optimum economic efficiency in order to foster political values—in one case an improved sense of community or national identity; in the other, a greater degree of equality.

The implication of the two cases are both far-reaching and profound. A GATT decision against the U.S. could spur the other 78 member nations to increase their restrictions of foreign investment in order to enhance domestic economic objectives. Many nations already have some form of performance requirements, and a number of international trade analysts believe the world economy is on the verge of a return to protectionism. The United States has treaties similar to the Japanese treaty of 1955 with more than 24 other nations. Other cases involving such treaties have come before U.S. courts. In a suit against an Ishi subsidiary located in Texas, a U.S. district court ruled that the treaty
book precedence, thus excepting the firm from the 1964 act. A similar suit against a Danish firm is still pending. Plaintiffs in both these cases were males. In California, Hitachi was charged with violation of state fair employment laws because its proportion of Asian-to-black employees was far higher than the proportion in the community in which the factory was located. With over 6,000 foreign-controlled firms employing more than 1.6 million workers in the United States, the Sumitomo Shoji case could have a widespread impact not only on sexual equality but also on racial and ethnic equality in the workplace. A decision in favor of Sumitomo could lead to the establishment of a dual system of employment practices; a decision against the Japanese firm could deter foreign investment in the United States and exacerbate unemployment (Bus. Wk., 11-23-81, pp. 57; Wall St. J., 6-16-81, p. 1).

The juxtaposition and comparison of the two complaints illustrate a crucial lesson that American businesses and government must learn if they are to operate successfully in an international economy: all countries, including the United States, modify what is economically rational in order to accommodate what is deemed politically necessary for a nation's well-being. Greater self-consciousness may help Americans become more sensitive to such behavior by other nations, thereby facilitating the negotiation of mutually satisfactory agreements.


B. HUMAN DYNAMICS - CIVIL RIGHTS AND THE U.S. IMAGE ABROAD

Contrary to the commonly held belief that civil rights questions have only domestic ramifications, U.S. achievements in the realm of civil rights and liberties do have a potentially significant effect on our standing in the world. In an internationalized and economically interdependent world, nations pay increasing attention to each other's domestic political processes and outcomes, not only comparing them with the other nation's troubled domestic scene but with their own as well. Developments since President Reagan took office indicate a changing attitude toward civil rights and liberties and a fundamental divergence from civil rights policies of the past 20 years. The Justice Department in 1981 decided not to continue enforcing desegregation orders for Chicago schools, which they have resisted for more than two decades. In Houston, Los Angeles, Seattle, and Dallas, school boards are taking advantage of the Justice Department's relaxation of its integration enforcement policies by decelerating desegregation efforts (Economist, 9-5-81, p. 21). In increasing numbers over the past year, local school boards want to ban books judged by parents, teachers, and school authorities to contribute negatively to the moral development of students (Chic. Sci. Mon., 11-17-81, p. 1+). A bill has been introduced into the Senate (S1751) to repeal the 1974 amendment to the 1965 Freedom of Information Act which increases the ability of private citizens to secure federal files and records. This bill would restrict the granting of requests deemed an invasion of privacy, would prevent the release of evidence relevant to criminal investigation, and would restrict the release of information pertinent to intelligence activities (Congressional Digest, 12-91, p. 351). The most publicized attempts at policy changes, however, concern what traditional civil libertarians believe to be unjust challenges to minority rights. President Reagan has come under severe criticism by civil libertarians and liberals for equivocating about whether to advocate granting tax-exempt status to private schools believed to practice racial discrimination in the name of freedom of religion (Newsweek, 1-29-82, p. 244, Chic. Sci. Mon., 11-23-81, p. 1+). The Senate Judiciary Committee is considering a bill passed by the House last year (HR3112) that would extend the authority of the 1965 Voting Rights Act in its existing form for two years. The act's passage was motivated by a desire to increase voter registration rates of blacks. It brought seven states under its jurisdiction, six of which were in the South. The extension also contains provisions to restore the legal standard for
election that existed before the Supreme Court decision in City of Mobile v. Bolden (308 U.S. 134) of April 1990. This decision permitted elections to be held as long as the intention to prevent blacks from being elected to office cannot be proven, even though that may be the result (Congressional Digest, 12-81, p. 291, The New Republic, 3-3-82, p. 15).

Treatment of civil rights questions are part of a larger conservative political and economic trend in the U.S. A reaction has occurred against Great Society and civil rights legislation, which many persons see as resulting in excessively fair treatment to minorities and the poor in areas such as social welfare, equal employment, educational opportunity, and especially affirmative action. Reaction against increased crime, the increasing number of illegal immigrants, and widespread access to government-held information has also occurred (Ch. Soc. Mon., 11-11-81, p. 1). The Justice Department's desire to relax desegregation enforcement, to convict criminals more easily, and to preserve government secrecy is rooted in its goal to "balance" broadly interpreted civil liberties with greater governmental authority to maintain civil order. Strict constructionist legal schools and some southern politicians advocate that the Voting Rights Act be extended to all 50 states so that it will no longer "discriminate" against southern states. Advocates of broad civil rights and liberties, on the other hand, believe that the price conservatives ask society to pay for personal security and social stability is too high. In terms of the sacrifice of freedoms they see as constitutionally guaranteed. A challenge to the bipartisan consensus which has dominated the resolution of minority and civil rights issues for 20 years has been issued by conservative activists. A prime exampl e is the mobilization of local support by the National Conservative Political Action Committee for populist-conservative causes. In response, the American Civil Liberties Union has felt it necessary to make an unprecedented shift from a strictly legal, to a legal and political, strategy with the formation of political action committees to gather support for its own agenda (Ch. Soc. Mon., 11-10-81, p. 1).

Today, American foreign policy is subject to greater scrutiny than ever before because countries in an internationalized environment, are prone to investigate the domestic determinants of a nation's foreign policy. Because the U.S. has press freedom and worldwide political, economic, and cultural presence, it lies open to examination. The U.S. self-image as a purveyor of liberalism, individualism, democracy, and free institutions is contrasted in the minds of many foreigners in the third world and in Western Europe with what they perceive as practices that contradict professed U.S. ideals. National civil rights policies in the U.S. can have a bearing on the success of its foreign policy and international trade position, because people in other countries, especially those of Africa and Latin America, identify with minority causes that arise in the U.S. In the event that civil rights legislation was passed in diluted form, the credibility of U.S. policy toward African and Latin American nations could be compromised. The rights of local control (exemplified by community banning of books) might eventually have to be judged against the long-term imperatives of maintaining a good U.S. image abroad. In an environment of increasing worldwide economic competition in which image plays a significant part in public and private choice, a close correlation between U.S. achievements at home and its image abroad would be in the national interest.


C. RESOURCES - ROLE OF COAL IN THE ENERGY MARKET

Although the oil price shocks of the early 1970s caused severe economic disruptions worldwide which led major energy-using nations to begin a process of conservation and substitution to compensate for expensive oil, the second round of price hikes in 1979 convinced them that dramatic action was required to forestall similar future trauma in their
economies. Since that time the overall energy market has been subject to striking changes, significant volatility in its several components, and consequent great uncertainty about where future demand and profits will lie. Prospects for coal usage have not escaped this general uncertainty (Petroleum Intelligence Wly., 1-11-82, p. 44).

As oil prices climbed after 1979 and serious questions were raised about the viability, economy, and safety of nuclear power as a major energy source, the Carter administration along with other governments, including those of European countries and Japan, made a policy decision to promote the greater use of coal. In addition, coal liquefaction and gasification became two of the most promising technologies in the budding synfuels industry which Carter and other government leaders sought to foster. As a consequence, coal industry observers became very optimistic about growth in coal as they watched it being substituted for other energy sources in Europe and Japan and concluded that it would be the incremental energy source elsewhere in the Far East and possibly in other developing nations (Petroleum Economist, 8-81, p. 391; 3-82, p. 101; Petroleum Intelligence Wly., 1-11-82, p. 44).

The interest in coal was profusely for the U.S., which has nearly one-third of the world's known reserves. Moreover, during the past year with political crisis in Poland and labor difficulties in Australia—two other major world coal suppliers—users have turned to U.S. companies for reliable but more expensive supplies. The results have been numerous. Serious congestion has occurred in those East and West Coast ports capable of handling coal exports, and plans for harbor development have proliferated. Interest has been sparked in the export of coal from the Illinois Basin, where half the U.S. reserves are located. Transportation issues such as development of coal slurry systems and requirements for utilization of U.S. flagships for coal export have taken on greater urgency, since transport is a major component of coal's cost. Finally, equity shares in coal reserves became a "hot" item, with both Europeans and Japanese shopping for them in the U.S. In an attempt to secure future supplies (J. Commerce, 2-17-81, p. 1A; 3-15-82, pp. 16A; 3-18-82, p. 2A; Atlantic Wall St. J. Wly., 8-3-81, pp. 11A; Rus. Wk., 1-11-82, pp. 89A; N.Y. Times, 10-27-81, p. D1).

Despite the activity and high hopes, however, a boom in the coal industry has so far not materialized to the extent projected. Recession and conservation have intervened to slow growth in energy use generally, and the U.S. presently has substantial production overcapacity in coal though transport networks are inadequate. Further infrastructure development is hampered by the fact that long lead times require long-term contracts which general uncertainty in the energy market discourages (Rus. Wk., 1-11-82, pp. 89A; Petroleum Economist, 8-81, p. 351).

Very recently, events have conspired to make coal lose more of its attraction. The oversupply of oil during the past year has now precipitated a sharp decline in oil prices on the spot market. OECD's hold on the market has been seriously damaged by a number of factors besides the recession, such as the normal internal problems, irreversible conservation efforts, the achievement of some diversification by industrialized nations, and oil sales by non-OPEC oil producers. Moreover, with continued tight money policies in the U.S. and other countries and historically high real interest rates, recession could continue for some time to come even in the face of lower energy costs. Some industry analysts have now concluded that lower prices may portend for the foreseeable future; and because oil prices in essence constitute a ceiling on those of coal, the advantages of coal usage are diminished. Moreover, prospects for the synfuel industry are rapidly waning; few, if any, projects will be continued without heavy government backing. A consequence of these developments, and of the concurrent decision by a number of large corporations in need of improved cash flow to divest themselves of some of their coal holdings, is that the price of coal reserves has plummeted (Petroleum Intelligence Wly., 2-15-82, pp. 71; Economist, 2-20-82, pp. 69A; 3-13-82, pp. 16 & 63A; Rus. Wk., 2-22-82, p. 44; 5-22-82, pp. 66-73; Wall St. J., 2-22-82, p. 29; 3-8-82, pp. 11A).

In the U.S. Reagan's 1983 budget and the failure to deregulate natural gas have also contributed to the decline of prospects for coal.
In signalling that it is fundamentally opposed to government's presence in the energy market, the administration has drastically cut funds for conservation and for R&D in all areas except nuclear power. Although the Synthetic Fuels Corporation has survived in scaled-down form, it has funds for only one year and could be eliminated altogether. The argument is that free market mechanisms should determine sources of energy, except in the nuclear area, where the U.S. must have superiority (Nat'l J. 2-6-82, pp. 229-32; Petroleum Economist, 2-82, pp. 56+; Congressional Qtrly, Wty. Report, 2-15-82, pp. 261-64; 2-27-82, p. 489).

Even as recent events have suggested that the growth potential in the coal industry may be less than has been anticipated, they also provide a reminder of the underlying feature of the energy market that will remain a fundamental for some time to come—its instability. For that reason continued efforts at diversification, both by suppliers and in energy sources, seem in order. With or without an oil glut, unpredictable events, particularly in the volatile Middle East, could lead to sudden, severe disruptions in supply (Chem. Eng. News, 3-15-82, pp. 14; Wall St. J., 3-8-82, pp. 1+).

Because of the long lead times needed to develop energy sources, diversification is a key element in achieving some semblance of future stability. To the extent possible, it is incumbent upon businesses in industry not to be diverted from that path. But because action in the private sector is so closely controlled by short-term free market forces, rapidly falling oil prices combined with recessionary pressures could well stifle private moves toward alternative energy sources. Without other means of fostering diversification, nations may find themselves unprepared to cope with a sudden energy crisis. Given that a secure and stable supply of energy is a prerequisite to domestic peace and tranquility in a modern industrialized nation, the use of government resources for R&D in a variety of energy alternatives has considerable legitimacy. Moreover, despite Reagan's assertion that government should stay out of the energy market, the U.S. government is in fact in it by virtue of its support (even if for other reasons) of nuclear power. If the government is to follow the Reagan administration energy plan, however, another course is available to encourage continued diversification and conservation—that of imposing a levy on imported oil and deregulating the price of natural gas. The resultant upward pressure on energy prices would provide the private sector a freemarket rationale for continuing to move away from its traditional reliance on petroleum.

Although extensive use of coal poses environmental and other problems, it offers certain significant advantages. Because the bulk of coal reserves are located in free world countries where coal is not the primary export, it is not subject to cartelization. For the U.S., another unique reason exists to promote coal: Should it become an important incremental fuel, with the U.S. a natural world supplier, coal usage in the U.S. would be cheaper than elsewhere by the cost of transportation, giving U.S. industry a significant economic advantage (Petroleum Intelligence Wty., 1-11-82, pp. 4+). Along with research and development in other energy fields, substantial progress needs to be achieved—either with the support of the public sector or as a result of the provision of free-market incentives—in solving problems that inhibit greater usage: making mining safer and cheaper, transport more efficient, and consumption cleaner. These efforts, along with continued support for development of commercially feasible solar technologies, would materially aid the U.S. and other nations in creating a global energy market not subject to sudden catastrophe as the present one is today (I.J. Commerce, 3-18-82, p. 238; Mining J., 1-22-82, pp. 574).


IV. NORTH AMERICA

SYNCHRONIZATION OF NORTH AMERICAN ENERGY POLICIES - Devaluation of the peso, a surfeit of oil, and deregulation of the U.S. energy industry suggest that it is an auspicious time for Mexico, Canada, and the United States to consider improving trilateral cooperation in resolving common energy problems. Last month the Mexican government refrained from supporting the peso on international currency markets, with the result that it fell nearly 40% in value against the U.S. dollar. Important reasons for the declining value have been an excess of world oil supplies and falling world oil prices. As a result of reduced oil revenues, Mexico has been less able to offset its large foreign debt. Another factor is Mexico's high rate of inflation—due largely to bottlenecks created by sudden oil wealth. Because of Mexico's long border with the United States and its high level of trade, differences in the rate of inflation have spurred a flight of capital to the United States (N.Y. Times, 2-14-82, sec. 12, p. 46; J. of Commerce, 2-19-82, pp. 1A+).

Meanwhile the value of the Canadian dollar reached a 50-year low of 80.31 U.S. cents. Canada's falling dollar is also a result of Canada's higher inflation rate, which draws capital from Canada into the United States (Wall St. J., 3-1-82, p. 26). Such capital losses, averaging $2 billion dollars per year during the late 1970s, are disruptive to Canada's economic development objectives, such as long-term energy security (i.e., self-sufficiency) and development of a manufacturing sector capable of replacing primary sector production as a major source of exports. The Royal Bank of Canada estimates Canada will need $1.4 trillion (Can.) in investment in the coming decade in order to achieve its energy goals. A key reason for the withdrawal of capital has been greater government intervention in Canada's energy sector. With increased taxes, federal policies designed to foster Canadian ownership in the energy industry, and general uncertainties regarding the future of Canada's nationalistic energy policies, foreign energy corporations, attracted in part by increasing American deregulation, have been pulling out of such Canadian projects as the Alberta tar sands to invest money in the United States (N.Y. Times, 2-14-82, sec. 12, p. 48; Wall St. J., 2-26-82, p. 14).

However, the United States is not without energy-related problems. The coal industry does not seem as likely to grow as it has in the past few years. Although coal sales, especially to Japan, were at a high level last year, this success is not likely to be repeated next year. Last year's sales were largely from old stocks produced at lower costs. Natural gas deregulation, which began in 1978 and is scheduled for completion in 1985, could result in chaos, according to some analysts. Certain producers, especially those with supplies from old wells, will enjoy a tremendous price "spike" while others such as deep well drillers may find their sources uneconomical if prices are equalized following total deregulation. Even if these disparities could be eliminated, the price rises likely to follow deregulation would have uneven effects on the economy. At present, prices vary as much as $2-5/MMBTU from region to region. Certain industries—glass, china, steel, textiles, and autos—will be strongly affected. Windfall profits tax similar to that imposed on oil might be a solution attractive to the federal government because of potential revenues: $30 billion per year has been added to government coffers from the windfall profits tax on oil. Economists, however, criticize this mechanism because it dampens production and investment, and thereby increases energy imports and detracts development of alternative energy sources (J. of Commerce, 2-25-82, p. 1A; Newsweek, 1-25-82, p. 57; Wall St. J., 2-9-82, p. 30; 2-12-82, p. 11).

The idea of a common market for energy in North America is not a new one. The United States needs stable and secure energy supplies such as those of Mexico and Canada in order to sustain its economic growth and to overcome inequalities that overburden those regions and sectors which are highly dependent on natural gas. Canada, too, needs Mexican oil to overcome shortages, particularly in the Atlantic provinces. Canada and Mexico both need American investment funds to develop their energy resources and to diversify their economies by developing their manufacturing sectors. As these sectors develop, both will need foreign markets. Because of its proximity, population, and prosperity, the
United States is the logical outlet for expanded manufacturing exports from Canada and Mexico. Low transportation costs to the U.S. will weigh heavily in favor of a U.S. market for Mexican manufactured items, since despite their low wage content, they will be increasingly costly as Mexico gradually brings domestic energy prices into line with those on the world market. Mexican oil and natural gas are currently priced at about 10% of world levels (Ronfeldt et al. 1980).

Political considerations have prevented progress toward greater economic cooperation. Canada and Mexico have been attempting to disengage from their high degree of interdependence with the United States. Each seeks to diversify in order to improve the balance between resource production and manufacturing. To achieve these goals, their public sectors control foreign investment and exert control over the energy industry. In addition, they are attempting to diversify their export clients. Energy resources are probably the most sensitive issue in the debate over increased economic cooperation vs. reduced dependence on the U.S. For example, a certain mystique has surrounded PEMEX since its establishment over forty years ago; it has stood as a symbol of Mexican nationalism and state sovereignty. For years oil production was intended for domestic use only. Even recent exports were justified as a stopgap measure to offset Mexico's rising foreign debt (Ronfeldt et al.).

These political values have not changed, but other developments mentioned above—increased privatization of the U.S. energy industry and declining world energy prices—are sufficient changes to warrant renewed efforts to rationalize North American energy policies. Deregulation of the U.S. energy industry implies a recognition that energy is a private sector activity and that energy prices must be allowed to reflect actual costs, demand, and world competition. Devices such as price controls and windfall profit taxes are considered harmful because they depress production and investment. As the energy industry is privatized, negotiations for synchronization of supply, demand, and prices can take place among equals, as it were. The traditionally weaker participants, Canada and Mexico, can now meet at the state and industry levels rather than with officials of the federal government. This equalization can serve as a carrot to attract Canadians and Mexicans away from extreme national sensitivity on energy-related issues.

Declining energy prices provide the stick by depriving Canada and Mexico of the high profit levels needed to finance their national economic goals, such as energy self-sufficiency and market diversification. Liquid natural gas exports from Mexico to Japan, for example, would be much more expensive than a natural gas pipeline to the U.S. Of course, a natural gas pipeline to the United States does imply, as Mexican leftists maintain, interdependence with the U.S. Yet this is the logical outgrowth of Mexico's goal of greater manufacturing exports since America is likely to be their main outlet.

If world prices continue to decline, Canada will be unable to develop the Alberta tar sands and arctic and offshore oil and gas resources without substantial foreign investment. However, to make requisite long-term commitments, foreign investors require reduced uncertainty regarding government intervention in profits. The costs of adjustment does not fall exclusively on the governments of Canada and Mexico, however. The U.S. must remain committed to deregulation of energy, and it must reconsider such policies as the ban on sale of Alaskan oil to Japan. Allowing these sales could lead to a rational swap, whereby Mexican oil no longer marked for shipment to Japan would be redirected to the United States, with Japanese supplies obtained from Alaska. This arrangement might mean a hardship on the U.S. shipping industry, since Japan would probably be reluctant to switch suppliers unless shipments continued to be in Japanese flagships. Nonetheless, the arrangement should be considered from the perspective of aggregate economic costs and benefits. Some other form of assistance could be offered the U.S. shipping industry. The critical role of energy in the modern economy is far too important to allow the predominance of particular political or industrial interests over the general interests of Mexico, Canada, and the United States.

POLAND AND THE BANKS: ANOTHER BAILOUT? - The Reagan administration's decision to pay U.S. banks the overdue interest on government-guaranteed agricultural loans owed by the Polish government has stirred much controversy. In January interest came due on three-year loans made by commercial banks and backed by the Commodity Credit Corporation (CCC) of the Department of Agriculture (USDA). Having agreed under the Carter administration to guarantee payment of the principal and 6% of the interest, the CCC now faces $71 million in interest claims from the banks. One key issue in the controversy is that the government did not first require the banks to declare Poland in default (Newsweek, 2-15-82, p. 36; Wall St. J., 2-24-82, p. 4; N.Y. Times, 2-14-82, p. E21).

Many advocates of a default declaration have relied on political arguments. Both Defense Secretary Weinberger and the AFL-CIO urged a default declaration as a means of putting economic pressure on the Soviet Union and its allies. In order to weaken the Warsaw Pact's military capabilities, Weinberger also urged default as a method of hampering progress on the Soviet/European natural gas pipeline (Buss. Wk., 2-6-82, pp. 28ff). However, an economically weakened Soviet bloc might choose more militaristic and repressive rather than more liberal, policies to quell the increased domestic dissatisfaction that would likely ensue. If the U.S. government alleviated its European allies, Nato would be further weakened, and European governments and banks could retaliate by refusing to support American bankers if, for example, Brazil, where U.S. financiers shoulder the largest share of external credit, were to default (Wall St. J., 2-26-82, p. 34).

Opponents of default, which include the Departments of Treasury and State as well as the banks, argue that a default declaration would remove all incentives for future payments and that Poland has few recoverable assets to offset bank losses. Moreover, there are so many creditors that legal entanglements would be likely to delay recovery and raise the costs of collection (Wall St. J., 2-24-82, p. 4; N.Y. Times, 2-6-82, pp. 29 & 30). In addition, declaring Poland in default might encourage third world countries such as Zaire to escape their debt burdens by "bankrupting" (Economist, 2-13-82, pp. 11ff).

Finally, banks contend the U.S. government shares responsibility for the current situation. During the past decade the USDA helped the U.S. Feed Grains Council effect structural changes in the farm sectors of East Europe, creating in their poultry industries a dependence on U.S. feed grains and among grain producers here a dependence on government-backed credits that finance expanded foreign markets (Buss. Wk., 2-15-82, pp. 42ff; N.Y. Times, 2-14-82, p. E21). Bank spokespersons maintain they would not have made such loans without USDA backing. As evidence, they cite the lowered exposure of U.S. banks (cf. European banks and U.S. and European governments) after 1976 when it appeared that Poland's economy was headed for a crisis rooted in its excessive, insufficiently supervised external debt (American Banker, 2-4-82, pp. 4, 8 & 9).

The administration's decision on Poland's loan has important implications for business-government relations. President Reagan's pledge to reduce the government's role in the economy has lost considerable credibility. AFL-CIO President Kirkland, for instance, claims that the administration modified its tough international position because of the banks' political influence (Wall St. J., 2-19-82, p. B1). Conservative critics liken the decision to the Chrysler and Lockheed "bailouts." However, since banks are not large employers, they could not even argue that default-occasioned losses would increase unemployment. The controversy over the decision on Poland also shows the dangers of employing economic means to achieve political ends. This fusion has informed (and harmed) U.S. international trade policy for years. Increased East-West trade has been touted as a means of prying Soviet satellites away from
dependence on the U.S.S.R. In order to fragment its political/military empire. This simplistic nostrum ignores the government dependencies created within certain sectors of the U.S. economy—in this case, banks, farmers, and agricultural traders.

If business-government relations are to be improved by a return to laissez-faire, neutrality toward all businesses and industries rather than selective support of some must become a criterion of policy decisions. The market must be allowed to perform its functions, even though some effects may be painful. By guarding banks against risk, government erodes a crucial role of banks—that of economic "barometer". Moreover, the separate identity of banks and the government becomes clouded, and government becomes implicated in any mistakes the banks might make. In addition, if government is to keep its "hands off" the economy, this policy must apply internationally as well. The government cannot mix economic means and political ends without compromising its domestic credibility and perhaps without opening itself to unexpected foreign policy results.

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