Briefings

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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.

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

BANK INFORMATION SHARING - Since October 1979 when the Federal Reserve placed its strategic and operational emphasis on growth in the money supply, it has published seasonally adjusted weekly figures for the M1 money stock. The reorientation away from interest rate policy has caused more widely fluctuating rates, especially for Federal Funds. Many critics contend that the publishing of weekly figures aggravates this volatility as Wall Street financial analysts guess whether the fluctuations are statistical "noise," a short-run "smoothing" by the Federal Reserve, or a general move away from planned targets. Because of this criticism, the Fed will now stress a seasonally adjusted four-week moving average for the money supply. This reporting reform is more cosmetic than real, insofar as the Fed will still release an unadjusted weekly M1 figure. However, because the national financial market has changed so radically with the addition of many non-traditional depository alternatives, there is discussion of publishing only an M2 money supply figure (Bus. Wk., 5-3-82, p. 16; Economist, 3-20-82, pp. 88+).

These short-term money figures are important: prices of government securities regularly show significant fluctuations whenever unexpected changes in the money supply are announced. For example, in the first two weeks of March, long-term bonds gained 15% in response to falling money supply figures for two consecutive weeks. The financial community may be responding with heightened sensitivity to weekly money figures because of its pessimism over the possibility of federal budget deficit reductions. The Fed's anti-inflation campaign has produced higher, as well as more volatile, short-term interest rates. This price would be a tolerable one to pay if long-term rates simultaneously fell in expectation of lower inflation; but long-term rates have stayed high as investors fear that future large deficits in the federal government's budget will cause inflation to quicken, negating the Federal Reserve's efforts (Economist, 2-13-82, p. 22; 3-15-82, pp. 88+; 3-20-82, pp. 88+).

Obviously, such a financial scenario increases uncertainty and volatility, leading many of the country's larger financial institutions
to seek means to reduce both. J. P. Morgan has a proposal to set up its own financial futures brokerage agency; and of course, the Chicago commodity exchanges have active futures trading in government securities, allowing participants to hedge against interest rate volatility. What is even more innovative is that a dozen major money center banks have formed a consortium to exchange confidential information on their deposits to assist in money supply forecasting. These banks stand to make considerable profits speculating in government securities should they be able to forecast accurately money supply changes (Economist, 3-20-82, p. 12; J. Commerce, 3-22-82, pp. 1A).

Some difficult issues are involved in this exchange. Several large banks have refused to join the consortium because of potential legal problems. No Federal Reserve regulations cover interbank exchanges of information, but there could well be antitrust implications. The extent to which major banks are pooling information to their own benefit while not allowing others to share in it may create a situation of unfair exclusion. Should clear-cut advantages to the consortium become apparent, government securities dealers could bring pressure to curb the activity. Federal Reserve spokespeople appear to dislike the development, but at present no action has been taken to curb it. The Fed has always been acutely conscious of the need to keep money supply information secret until its release on Fridays. If other major banks join the consortium, possibilities for accurately predicting the money supply will be enhanced (J. Commerce, 3-22-82, pp. 1A; 3-22-82, pp. 1A; Economist, 3-20-82, p. 86).

In some respects, the information pooling arrangement could have positive effects. The better one is able to forecast future events, the less the uncertainty. Both the president and Congress have expressed concern that the market reaction to weekly supply numbers is excessive. Reduced uncertainty could diffuse speculation and reduce overall volatility. The negative repercussions, however, could be more significant. While the information exchange now involves only deposit data, the possibility of other forms of discrete collusion are present. Further, as many of the leading commercial banks are moving into new financial services, such as security brokering, the dividing line between anti-competitive behavior and the provision of "comprehensive" services will become increasingly blurred.


II. INTERNATIONAL ARRANGEMENTS

A. ECONOMIC/COMMERCIAL - WORLDWIDE UNDERGROUND ECONOMY

The growth of the underground economy in the United States, described in the last issue of Briefings, has been paralleled in almost every industrialized country. In the U.S. the underground economy is comparatively small in proportion to the open economy. Estimates range from 10-14% of gross national product (GNP), although a few economists' figures run as high as 25%. In Italy the percentage is estimated to be equivalent to 25% of the GNP; in West Germany, 10%; in the Soviet Union, 20%. Businesses and professionals add an estimated 19% in off-book transactions to the Japanese economy (U.S. News & World Report, 3-8-82, pp. 79; Bus. Week., 4-5-82, pp. 64).

Many underground economic activities—including drug smuggling, nuclear and conventional arms shipments, transport of illegal aliens, prostitution, and even textile manufacturing—involves international transactions. Outflow of "narcodollars" from the U.S., for example, accounts for an estimated 8% of the balance-of-payments deficit (J. Intl Affairs 35(1):111, Spring/Summer 1981). France has complained
that Italian textile imports are unfairly harming the French textile industry and causing trade distortions because Italian goods are made by workers paid at sublegal wages by small family firms adopting evading taxes and government labor legislation (Wall St. J., 4-12-82, pp. 11; U.S. News & World Report, 3-8-82, pp. 37f). Despite a 1963 U.S. arms embargo, South Africa is better equipped militarily today than it was two decades ago, with many arms and parts of American origin. Similarly, countries such as South Africa, South Korea, Israel, and Pakistan are suspected of working with intermediaries and third countries under the guise of atomic energy projects to procure materials from U.S. suppliers for nuclear weapons (J. Int'l. Affairs 35(1):27, Spring/Summer 1981).

In centrally planned communist economies the black market is largely the result of a chronic shortage of consumer goods and services. In noncommunist industrial economies rising taxes are regarded as a primary cause of the growth of the underground economy. Thus, failure to report (and pay taxes on) income from legal economic activities is more prevalent in many European countries, with their higher taxes, than it is in the U.S. Mistrust of government is a second important factor. Despite very high taxes in Sweden, its underground economy is thought to be small because Swedes generally respect the integrity of their government. Another factor in Europe is the relatively large portion of the labor force involved in agriculture, a sector where off-book transactions are easy to hide. A final factor in Europe is the extensive use of cash, particularly for payments of wages. In Great Britain half the workers are paid in cash. In Italy small businesses use cash payments to cut costs: no employment records are kept; workers avoid income taxes; and employers escape payment of social welfare taxes, which add a 40% levy to wages (Wall St. J., 4-12-82, pp. 11; B-24-81, p. 11).

In many developing countries government officials are participants in the underground economy. A few countries have determined to acquire nuclear military capabilities, and they have resorted to complicated measures to circumvent increasingly stringent international restrictions on the spread of nuclear weapons. In others, the magnitude of the economic return, particularly from drugs, in proportion to prevailing income standards is considerable. Indeed, the amount of money involved has been great enough to entice public officials even in the United States to violate the law or to ignore violations by others. It is not surprising that public involvement is fairly widespread in countries where bureaucratic graft and corruption are traditional and civic morality has not been reinforced by the responsibilities of democratic government.

The effects of the underground economy in the more industrialized countries are similar to those previously described for the U.S. Tax revenues are lost because income from legal activities is not reported to the government. The actuarial soundness of social welfare systems is undermined because many employees and employers do not contribute (Int'l. Labour Review 119(4):549-63, Sept./Oct. 1980; Wall St. J., 4-12-82, pp. 11). Fiscal and monetary policies based on distorted pictures of the economy exacerbate inflation. In addition, illegal arms sales undermine the foreign policy of the U.S. and other Western powers, diminish international respect for U.S. commitments to such measures as arms embargoes, and threaten world peace.

Notwithstanding the seriousness of these effects on developed nations, the domestic impact of the underground economy on certain less developed countries (LDCs) is at least as grave. Colombia is a case in point. Income from drug traffic adds 14-20% to its money supply, playing havoc with government attempts to set monetary policy. In addition, it skews an already unequally distributed national income and imbalances economic production. The fishing industry, which traditionally provided a livelihood for middle- and lower-income Colombians, has dwindled as boats are used much more profitably for drug transportation. The same effect has occurred in farming, resulting in reduced agricultural supplies and rising food prices. Thus, production and consumption of such luxury goods as high-rise condominiums abound in the midst of a shortage of basic necessities. Moreover, for Indians the switch from subsistence farming to dependence on a cash crop of marijuana has occurred quickly. Rapid cultural change is inevitably disruptive of social stability.
Further instability is caused by the lawlessness, violence, and political corruption that accompany lucrative illicit economic activities. In general, many developing countries lack the sociopolitical infrastructure and the economic development and diversification to absorb and contain the effects of the underground economy.

Mexican policymakers seem to have realized the implications of illegal economic activities for social, cultural, and political stability. One reason the Mexicans have cooperated with Americans in spraying marijuana fields in Mexico and curtailing the passage of other drugs through the country is their concern that these underground activities could create in Mexico an autonomous, rival power base with enormous financial resources. Mexico's success in eradicating these activities was partially a function of its economic development. Because the Mexican economy is large, advanced, and diversified, an illegal underground economy has not had the distorting effects experienced in Colombia. Furthermore, Mexico's willingness to solve the problem has been facilitated by years of concentrated political power.

Most governments of developing countries lack such will and power. In addition, many believe the U.S. should address its domestic side of the problem rather than place emphasis on foreign supplies. Although the illegal portion of the worldwide underground economy may be smaller than the legal component, certain illicit activities, particularly arms sales and drug traffic, are more problematic than unreported legal activities because of their serious consequences for the social fabric of many countries and for peaceful international relations.


8. POLITICAL/MILITARY - ROMANIAN ECONOMIC IMPLICATIONS

On April 7, 1982, as Poland and its key foreign creditors signed a long-awaited agreement rescheduling foreign bank payments due in 1981, Poland and Czechoslovakia announced they would increase their economic ties. This pairing of events characterizes Poland's reintegration into the Soviet bloc as its western economic activities atrophy. In Romania the communist party's executive committee recently decided to refrain from seeking new loans from the West to finance investment (Wall St. J., 4-12-82, p. 26; 4-7-82, p. 1 & 36). In Romania likely to follow Poland's lead back into the Soviet fold? Despite economic, cultural, and political evidence that gives credence to such a prognosis, there is reason to believe that Romania can continue to pursue autonomy, particularly in the economic realm.

Both Poland and Romania have been exemplars among communist states of increased economic ties with the West. Both have borrowed heavily from the West to finance economic development. Romania owes foreigners $1.8 billion, while Poland's debt stands at $27 billion. Romania, in addition, has granted diplomatic recognition to West Germany and Israel and joined the International Monetary Fund (IMF). Romania was neutral on the Sino-Soviet split and has been a leader of polycentrism in the communist bloc (Wall St. J., 4-12-82, p. 26).

Another similarity between Poland and Romania lies in the recent growth of economic problems. Romania's economy is one of the poorest in eastern Europe. Recently, the government announced price increases for telephone services, gasoline, food, and utilities. These price hikes and concomitant reductions in subsidies were part of an effort to bring order to the ailing economy (Wall St. J., 3-30-82, p. 36; 4-5-82, p. 27). Romania's current economic problems are a result of a misguided modernization program, which stressed industry at the expense of agriculture and centralization rather than Hungarian-style rationalization.

A second factor in Romania's economic deterioration is its declining oil reserves. In 1976 Romania became a net importer of oil, and its
supplies may be completely depleted by 1991. Because of the effects of this transition on petrochemical refining, which planners had viewed as a critical source of hard currency, Romania will have a difficult time repaying its foreign debt. Its manufactured goods are of such inferior quality and are so hard to market in the West that Romanian contracts with importers now include "countertrade" clauses requiring acceptance of Romanian manufactured goods as payment. Shifting the burden of marketing to westerners has hurt Romanian commercial relations with the West. Western bankers appear to have cut off further credit in the wake of the Polish crisis and Romania's announcement in September 1981 that it would seek postponement of one-fourth of its Western hard currency debt. Rescheduling was formally requested in March of this year (Wall St. J., 4-12-82, p. 26; Wall St. J., 10-20-81, p. 25; Forbes, 5-11-81, pp. 151ff.).

Culturally, Romania's maverick status is even more tenuous than that of Poland. Compared with mountainous Yugoslavia and Albania, neither of which is contiguous with the U.S.S.R., Romania's location and broad plains render it as vulnerable as Poland to Soviet invasion. Unlike Poland and Czechoslovakia, Romania has not had a strong labor movement or a tradition of social protest under communist rule. Romania's autonomous foreign policy is rooted in nationalism rather than in ideological differences. Yet Romania's autonomy has always been shrewdly moderate and somewhat vacillating, largely because 10% of Romania's population consists of Hungarians and Germans, concentrated in certain regions and historically accustomed to elite status which they no longer enjoy (Wall St. J., 10-20-81, p. 25).

Politically, stronger Romanian ties with the U.S.S.R. may be an inevitable by-product of modernization. Scholars have noted an inverse relationship between de-Stalinization and de-specialization. In the case of Romania, the Soviet Union has tolerated an autonomous foreign policy only because strict orthodox domestic control has been maintained. In 1974, Romania's President Nicolae Ceaucescu, as head of party, government, and economy, was estimated to hold more internal power than any of his eastern bloc counterparts; he has used this power to enforce a high level of ideological purity at home. The complexities of modernization and economic growth, however, require greater specialization and decentralization of decision making. In the future, his power base may be eroded as authority is increasingly relinquished to technocrats. Consequently, some rapprochement with the Soviet Union may be the requisite trade-off for continued economic modernization (Problems of Communism 23(4):29-43, July/Aug. 1974).

Despite these political and cultural limitations on Romania's autonomy, western policymakers should not be overly pessimistic in regard to future dealings with Romania. First, since the Soviets are eliminating price reductions formerly granted to eastern bloc countries, Romania may look elsewhere for its oil supplies. The U.S.S.R. is now demanding world prices for oil purchases above 1980 levels and payment in hard currency (Forbes, 5-11-81, pp. 151ff.). Second, Romania's continued membership in the IMF is in the interest of the U.S.S.R., which can use the weighted votes of Romania together with those of Hungary and Poland, should their applications be accepted, to dilute U.S. voting strength. Third and most important, Romania's desire for autonomy is deeply rooted in that realm where the West has made the greatest strides—economics. As early as 1965, Romanian leadership rejected the specialized agricultural role envisioned for the country within the Council for Mutual Economic Assistance (CONEC). Romania's subsequent international economic policies have consistently reflected the desire to transcend its ascribed status as a farm goods supplier to more industrialized countries.

If western commercial policy toward Romania is informed by overdrawn comparisons with Poland, the results could be grave for both sides. If commercial relations are significantly reduced, western manufacturers of high technology goods, particularly in those sectors slated for growth under Romania's next five-year plan, will suffer serious opportunity costs (Bus. America, 10-5-81, pp. 7f). Creditors may never collect their outstanding debts if Romania is not accorded the technological and trade ties necessary to restructure its economy by modernizing agriculture, diversifying energy sources, and raising productivity.
and the quality of output (Wall St. J., 5-19-81, p. 1; N.Y. Times, 9-27-81, p. 5). Since Romanian nationalism is so strongly grounded in its economic goals, the best way for the West to constrain Romania's rapprochement with the Soviet Union seems to be maintenance of a prudent level of economic involvement, even under present adverse circumstances.


III. DOMESTIC ISSUES

A. HUMAN DYNAMICS - ISRAEL AND THE SINAI

Since the U.S. withdrawal from Vietnam, Americans have felt a persistent and growing sense of powerlessness to affect events in the international arena—a feeling of odds with our perceived role from the end of World War II until the early 1970s. In January 1979 the Peacock throne of Iran fell to the forces of nationalism and Islamic fundamentalism, and the United States lost a strong, long-cultivated ally in the person of the Shah. Critics readily condemned the Carter administration for having failed to preserve the tottering dynasty which had served as a linchpin in the strategy of protecting American interests in the volatile Middle East (Fortune, 3-12-79, pp. 94-99; U.S. News & World Report, 1-29-79, pp. 51; Wall St. J., 11-10-78, p. 24).

To make a bad year worse, December 1979 witnessed Soviet armor rolling into Afghanistan, allegedly in response to a request for support from the government of Babrak Karmal. Confronted with the fait accompli of Soviet occupation, the Carter administration responded by restricting the sale of American grain and high-technology products to the U.S.S.R. and by calling for an international boycott of the 1980 Summer Olympics scheduled for Moscow. More than 60 nations kept their athletes at home, but President Carter's efforts failed to cause the games to be moved. The boycott, combined with myriad other signals of American displeasure, also failed to motivate the Soviets to withdraw approximately 95,000 Russian troops still stationed in Afghanistan as of March 1981 (U.S. News & World Report, 8-11-80, p. 46; 2-4-82, p. 24; Statesman's Year-Book, 1981-82, pp. 65-70).

Closer to home, the U.S. has been only partially successful in influencing the leadership of El Salvador—almost totally dependent on American aid for its survival—on matters relating to human rights. Political killings in that troubled land, with most apparently the responsibility of the army and extreme right, reached a peak of 800 per month in January 1981, telling to approximately 300 per month by the end of the year. The U.S. has urged that the Salvadoran military eliminate all terrorist acts against its own population in order to encourage greater popular support for the centrist coalition attempting to bring stability to the nation. Though evidence of some progress is visible, unrestrained violence with government sanction or collusion remains the rule rather than the exception (Newsweek, 2-19-82, pp. 32-33; 2-22-82, p. 34; Economist, 3-27-85, pp. 214).

On April 25, 1982, Israel completed evacuation of the Sinai and returned that desert territory to Egypt in compliance with the Israeli-Egyptian peace treaty. Return of this territory taken by Israel during the 1967 Six-Day War was a crucial component of the treaty and the Camp David accords, which were intended to initiate a lasting peace between Israel and its Arab neighbors. Both U.S. and Egyptian diplomats have striven to allay Israeli anxieties that, once the bargaining chip of the Sinai was lost, their countries would attempt to force Israel into an unpalatable compromise on the Palestine issue. However, in spite of persistent U.S. pressure and the long lead-time allowed for withdrawal, Israeli consternation with the treaty remained in doubt almost to the final
moment. Officially, the Israeli government balked at the prospect of full withdrawal because of allegations that Egypt had placed more troops and military fire power in the Sinai than was allowed under the agreement; because of assertions that Egypt has forged closer ties with the PLO; and because of at least initial Egyptian reluctance to surrender a Sinai beach on which Israel is building a resort (Newsweek, 4-26-82, pp. 52-56; 4-5-82, pp. 36-40; Wall St. J., 4-26-82, p. 31).

Internal pressures may, however, have had equal or even greater effect in inducing Israeli reluctance to hand back the Sinai. Approximately 5,000 Israeli settlers inhabited 17 outposts in the desert. Lured by government subsidies in an inflation-racked economy, as well as by a religiously oriented sense that the land belongs to the Jewish nation, these colonists vociferously opposed abandonment of this spoil of war. At Yamit, the last settlement to be vacated, 4,000 militant residents, augmented by religious students and children smuggled in by the Stop the Withdrawal Movement, vowed never to leave. More radical elements of the leadership even hinted at the possibility of collective suicide in response to eviction from what they consider "holy sand".

Remarkably, in the face of potentially violent opposition from the Sinai settlers, who were being supported by other significant elements within Israel, the Begin government complied with its international agreements and the strong expectations of the U.S., even though compliance seriously threatened the already precarious ruling coalition (Newsweek, 4-26-82, pp. 52-56; 4-5-82, pp. 36-40; 1-11-82, pp. 36).

It is by now commonplace to recognize that threats from abroad—actual or potential—often provide troubled regimes with a unifying focus to divert restless citizens from economic and social problems at home, most recently demonstrated by the Argentine effort to establish sovereignty over the Falkland Islands. It seems equally important to understand that internal social and political forces often limit a nation’s actions in the international sphere. Prudent observers must recognize that American influence can have only a limited impact when encountering such countervailing imperatives. In the case of the Sinai, U.S. pressure combined with Israeli hopes that peace with Egypt would lead to greater security for their nation to overwhelm internal opposition. However, strong U.S. objection was not sufficient to prevent Israeli annexation of the Golan Heights. Americans might realistically view such limitations on our international influence not as a sign of weakness, but rather as the logical result of internal sociopolitical stresses experienced by all nations (Congressional Quarterly Weekly Report, 12-26-81, p. 2589r; Newsweek, 4-19-82, p. 46).


B. RESOURCES—FRANCE AND SCIENCE

Charles de Gaulle’s postwar vision of a technologically independent France is today more than a dream. The French government-controlled telecommunications producer, CIt-Alcatel, appears set to conclude a major business agreement with India to supply as much as half of India’s requirements for digital switching equipment over the next few years. In March, the Egyptian government confirmed a $1 billion order for Dassault Mirage 2000s, sophisticated current-generation fighter planes. By 1983, when Telecom 1 is launched by the French space agency, French companies will be able to use the services of a domestically produced satellite devoted primarily to business communications. The satellite will free France from the expense of leasing channels on Intelsat satellites for telecommunication links with its overseas territories (Bus. Mk., 4-12-82, p.51; Int’l. Defense Review 15(5):15, 1982, p.15; Nature, 3-25-82, pp. 285-304).
Following the second world war, many of the French, who have always cherished their independence and the unique features of their culture, became fearful that a restructured Europe would gravely dilute their identity. General de Gaulle struck a strong chord of nationalism when he sought, as a major policy objective, to achieve national independence in economic and military affairs, especially from the United States. The country has developed its own nuclear deterrent and for many years blocked British entry into the European Economic Community for fear this would allow U.S. multinationals to circumvent the EEC's tariff barriers. In some respects, the current government of Francois Mitterrand is equally dedicated to technological advancement. When announcing appointments to head the newly nationalized industries, he noted that their mandate was to "promote an economic recovery as regards employment, investment and research...." The minister of state for research and technology, Jean-Pierre Chevennement, has obtained a 29% increase in the government research budget and has drawn up aggressive plans to further research in electronics and biotechnology (Nature, 3-25-82, pp. 285-304; 7-2-81, p. 34; New Scientist, 5-14-81, p. 100; 7-9-81, p. 72; Economist, 2-20-82, p. 71).

This government concern for technological advancement since World War II has spawned a variety of government agencies that either directly undertake research or provide funds for private research ventures. France has the strongest nuclear power program in Europe. The French space agency, Centre Nationale d'Etudes Spatiales is the largest in Europe. The government also encourages the industrial use of research conducted under its auspices. The Agence Nationale de Valorisation de la Recherche, which seeks to convert the research of universities and government labs into industrial product innovation, has had a budget increase of 76% last October. Mitterrand called on Jean Jacques Servan-Schreiber (author of The American Challenge and The World Challenge) to organize a program for the production of personal minicomputers in France. Another program in computer development, the Centre Mondiale, brings together computer scientists from around the world to develop cost-effective designs. Public acceptance of trial models will be carefully monitored to assess social questions regarding the human/computer interface and to feed public reaction into the design process. The ultimate aim is to produce a powerful microcomputer costing no more than $200 for personal home use (Nature, 3-25-82, pp. 285-304; 7-2-81, p. 34; Science, 7-21-81, p. 420; Economist, 4-17-82, p. 63).

All this is not to imply that the country's technology policies are without major problems and obstacles. The technocratic centralism of the government's programs has created a degree of rigidity in the system of science management that is cause for concern. Other structural and psychological obstacles could hinder development in some scientific areas. In the education system, a strong historic distinction has been drawn between training, as embodied in the "grandes écoles," and culture, as represented by the universities. Thus, while the French education system is dominated by science, it is inefficient in producing scientists. The role of the "grandes écoles" in training civil servants has meant that the universities find themselves detached from the decision making machinery. Moreover, a strong feeling exists within the university system that its research should not be tainted by contacts with Industry (Nature, 3-25-82, pp. 285-304).

France is a country renowned for its cultural contribution to humankind, and it has also produced its share of noted scientists (e.g., Louis Pasteur, Louis Pasteur, and Andre Ampere, to name a few). But its performance in the industrial use of scientific advances has been less impressive. The reasons are not easily identified, as they involve cultural mores as much as the educational structure and system. It is in the area of commercially applicable scientific research that the present government is pushing so hard. In some respects it is a gamble because so much depends on the government's expansionary fiscal policy. If this cannot be sustained with self-fulfilling growth, the government's aspirations for technological development will have to be greatly curtailed.

IV. NORTH AMERICA

GREENLAND, NATIONALISM, AND INUIT SOLIDARITY - In a referendum held in late February 1982 Greenlanders, by a narrow majority of 52%, voted to withdraw from the European Economic Community (EEC) (Economist, 2-27-82, p. 50). On April 11, a plebiscite was held in the Northwest Territory of Canada on the proposal to form a separate political entity (Chr. Sci. Mon., 4-13-82, pp. 124). These two apparently distinct events have important similarities and implications for future North American policies and economics.

Greenland's vote reflects a growing desire for greater self-determination on the part of its 50,000 people, 80% of whom are Inuits. Ethnic self-consciousness among Inuits, commonly known to Europeans and Americans as Eskimos, has been on the rise for over a decade, not only in Greenland but also in Canada and Alaska. Ten years ago Common Market membership was rejected by 71% of Greenland voters (Polar Record 21(130):23-32, Jan. 1982). Nonetheless, Greenland then, a province of Denmark, became an EEC member. In 1979 it was granted home rule, thereby paving the way for the current referendum.

In 1980 the Inuit Circumpolar Conference (ICC) was established. Along with Greenland Inuits, representatives of the 29,000 Canadian and 30,000 Alaskan Inuits attended. Invitations were extended to Soviet Inuits as well, but none participated. The ICC is seeking acceptance in the United Nations as a nongovernmental organization, and this status is likely to be awarded in 1983 (Chr. Sci. Mon., 4-13-82, pp. 124). Canadian Inuits have yet to express the desire for autonomy and control over the resources of their homeland that American Eskimos did through the Native Claims Settlement Act of 1971, which granted them vast acreage, money, and local self-government. However, claims to nearly half of Canada's land is under dispute by various native groups (Breton, 1980, p. 106).

The spreading desire for self-determination among Greenlanders is rooted in the rapid social change which has occurred since World War II. Postwar development resulted in better health care, reduced mortality rates, and rapid population growth. Populations became more concentrated and economically dependent on modern activities, such as food processing. However, population growth has outpaced economic growth, and by 1985 some 8,000 people may be without jobs (Polar Record 21(130):23-32, Jan. 1982). Common Market membership increased pressures on Greenland's traditional livelihood of fishing by opening her waters to other EEC members. Although in return Greenland's exports were granted duty-free entrance to European markets, the country's national pride seems to have been injured by incursions into an activity which has been central to its economy and its culture (German Tribune, 3-14-82, p. 3).

Greenlanders are increasingly opposed to further economic development of the arctic north because of the potential threats to traditional ways of life. Icebreakers carrying Canadian liquid natural gas (LNG) as part of the $2.1 billion Arctic Pilot Project (APP) would, during their projected 1,000 passages per year, break up the frozen waterways that serve as dog-sledded "highways." Additionally, their noise would disrupt sonar communications among whales for a 60-mile radius, thereby threatening another traditional Inuit livelihood—whaling (Wall St. J., 2-2-82, p. 8; Chr. Sci. Mon., 3-22-82, p. 3).

The resource wealth of the north is likely to increase conflict between the native peoples of Greenland and Canada and the governments of Canada, the United States, and even Europe. Greenland's parliament has already expressed its unanimous opposition to the APP. This project is important to both Canadian and American energy requirements because the LNG from it will permit Canada to release gas produced in its western provinces for shipment to U.S. markets. The arctic north may have
the equivalent of half the U.S. natural gas reserves (Wall St. J., 2–28, p. 83). Greenland’s resources include gold, copper, uranium, lead, zinc, coal, and chromium. The last has a grade four times as high as chromium found in the U.S., and the reserves are larger than those in any noncommunist country except potentially unstable South Africa and Zimbabwe (Wall St. J., 2–5–82, pp. 11, Polar Record 21(130):23–32, Jan. 1982). Pressures will certainly mount from industrial countries to exploit these resources.

Rising self-consciousness among Greenlanders may not take a definitive antidevelopment focus; rather, they may turn their energies to gaining control of the development process. Greenland could deal with rising pressures from western industrialized countries by political maneuvering. It has, for example, indicated that the U.S.S.R. would be one of four possible development partners. One of Greenland’s political parties has suggested leasing military bases to the U.S.S.R., with obvious strategic military implications for North American security. Short of turning to the Soviets, Greenland might seek investment funds from native groups in Alaska, which have not only the U.S. government’s initial payments and land rights but also taxation powers over Prudhoe Bay oil shipments by virtue of their local self-government. This latter move is likely because Greenland’s withdrawal from the EEC will eliminate annual revenues equivalent to $266 per person (Economist, 2–20–82, p. 50; Polar Record 21(130):23–32, Jan. 1982). Perhaps most important, if Greenland’s antidevelopment attitudes spread to Canadian and American Indians, domestic pressures could constrain further development of the north and reduce energy and mineral supplies in the United States and Canada.

However, sensitive handling of the issue by businesses in developed countries could prove beneficial to both sides. Native peoples could prosper from resource exploitation, and they could find jobs for their unemployed and for those displaced from traditional occupations. Greater employment of Indians by resource development firms could help cut costs by reducing the number of highly paid workers brought in from temperate climates (Wall St. J., 2–5–82, pp. 11). However, rapid socioeconomic change, particularly the influx of large amounts of cash, is not a guarantee of improvement for aboriginal peoples, as many Alaskan natives can testify. Cultural displacement of native populations, deprived of their traditional livelihoods, yet unable to assimilate into a capitalist society, could be an expensive price to pay to meet the energy demands of North America.


V. EDITORIAL

CARIBBEAN BASIN INITIATIVE — The United States has always tended to direct its development aid to countries and regions that can further a strategic political or military aim. A large proportion of aid funds are directed toward Israel, Egypt, Pakistan, and more recently, the Caribbean Basin. President Reagan’s February announcement of a Caribbean initiative, comprised of a $350 million aid package, has come under criticism for just this reason. While it undoubtedly represents a needed input into an economically depressed area, many observers believe it is too little too late. Further, the more cynical observers note that heightened U.S. interest in the region closely follows the unrest in Central America, increased migration from Haiti and Cuba, and a shared desire to curb Cuban influence in the Western Hemisphere. Some Caribbean nations note that Jamaica, under the government of Prime Minister Seaga, a pro-U.S. conservative capitalist, is to receive a disproportionate share of U.S. aid to the region, while the U.S. has attempted
to exclude Grenada, with its shared socialist tendencies, from the basic aid package.

The critics of Reagan's Caribbean Basin Initiative argue that the traditional attitudes which have informed U.S. policy in the region have changed little. They contend that long periods of neglect followed by short periods of concern occasioned by strategic considerations will not solve the region's economic problems. Without doubt, the developing countries in the region have fared badly since the oil crisis of 1973. Balance-of-payments problems have become acute, and the depressed prices of the region's major commodities (sugar, bauxite, and bananas) together with rapidly rising populations have created catastrophic unemployment problems. The influx of Haitians into Florida in the last year is graphic testimony to the over 50% unemployment in Haiti.

In many respects, the Caribbean region has been characterized by a unique level of dependence on more affluent countries. The vulnerable economic structure and, to some extent, the political structure can be traced directly back to the colonial era. Much of the arable land was turned over to large-scale plantation agriculture, such as sugarcane production, with little development of small- and medium-sized farms. To overcome the labor shortage, slaves were imported. While slavery no longer exists, the basic economic structure remains unchanged. The countries are still tied to the production of raw materials and services, are unduly vulnerable to the price movements of a single commodity, and are dependent on imported capital and technology for development and on imported food to feed their people. While the Caribbean countries are handicapped by an awkward distribution of natural resources, their economic structures have not been amenable to change without fundamental political reforms. Even Cuba, which has made major improvements in its food production, is still heavily dependent on Soviet financial assistance.

In an attempt to break away from dependence, many Caribbean nations have attempted to develop an industrial base. In effect, they have endeavored to industrialize by invitation, with an array of tax incentives and subsidies to attract investors. In some cases this has met with reasonable success; Puerto Rico is an example. Most frequently, however, the capital-intensive nature of manufacturing production has done little to curb rising unemployment. Other development programs, such as attempts at regional integration, have also proved unsuccessful. The Caribbean Common Market (CARICOM), formed in 1973, is still in existence; but its ability to achieve economies of scale in both provision of services and location of industry—so crucial for the small island nations—has inevitably come into conflict with political autonomy and jurisdictional issues.

The Caribbean is in earnest need of a coherent, long-term economic development plan that integrates the countries on the periphery of this region. The joint involvement of Venezuela and Mexico in encouraging growth in the area is a positive move, as is Reagan's Initiative. But to achieve meaningful success, the United States and possibly Canada, as well as certain Latin American countries, must address issues that extend beyond the mere granting of financial assistance on an ad hoc basis. Temporary permits allowing people from the island nations to work in the United States would do much to relieve unemployment pressures and also provide a source of realistic income. While a work program would have U.S. domestic political repercussions, the involvement of the United States in the Caribbean is no longer a matter of choice, but of urgent necessity.


