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UPDATE
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3/5/86 Number 7

MEMO TO U.S. POLICYMAKERS: SOUTH KOREA IS NO PHILIPPINES

(Updating Asian Studies Center Backgrounder No. 22, "Kim Dae Jung Tests Seoul and Himself," January 25, 1985)

Escalating political tensions between the ruling and opposition parties in the Republic of Korea (ROK or South Korea) have led some Americans to draw an analogy between the ROK and the Philippines and to call for U.S. intervention to promote greater democracy in South Korea. However, fundamental differences between the political situation in South Korea and the Philippines argue against direct U.S. involvement in the South Korean political debate.

In the Philippines, Ferdinand Marcos was president for twenty years and demonstrated in the February 7 elections that he had no intention of relinquishing power. The hallmark of South Korean President Chun Doo Hwan's administration, by contrast, has been his often repeated pledge to step down at the end of his seven-year term in 1988. This would allow the first peaceful transfer of executive power in South Korea's 38-year history.

In stark contrast to the corruption, cronyism and economic mismanagement of the Marcos government, Chun is given credit by supporters and critics alike for the honesty of his Administration and for his effective economic policies. While the Philippine gross national product (GNP) has shrunk 6 percent since 1981, and Filipinos bring home an annual per capita income of only about $600, South Korea's GNP has grown by over 27 percent during the same period, and its people enjoy a per capita income of more than $2,000. Indeed, the vigor of South Korea's economy and the quality of its products worry even Japan.

Another key difference between the Philippines and ROK is that there is no communist insurgency in South Korea drawing strength from popular dissatisfaction with corrupt authories.

For the above and other reasons, the U.S. would be ill-advised to use a Philippine model to devise policy options toward the ROK.

The current debate in South Korea, that has attracted attention, is focused on whether to amend the constitution. The main opposition New Korea Democratic Party (NKDP) demands a constitutional amendment mandating direct election of the president in 1988. Chun and his backers favor retaining the current constitutional provisions for an electoral college system. This debate over the upcoming presidential election process, however, is just part of a larger political drama. The NKDP hopes to use the issue to win popular and foreign support for its efforts to revise the entire constitution.

The Chun administration claims, with some justification, that the ROK's history of political confrontation stems largely from the frequency with which Korean constitutions have come and gone. Indeed, the current constitution is the fifth in fewer than four decades. Chun wants to bring order and stability to South Korean politics and to avoid the chaos that has characterized power transitions in the past.

Last month, Chun proposed that the question of constitutional revision be postponed until after the 1988 election. He recommended that his government and opposition leaders concentrate instead over the next three years on issues such as economic development, the ongoing reunification talks with North Korea, the 1988 Olympics in Seoul, and the peaceful transition of power in 1988. He called for the immediate creation of constitutional revision committees in the National Assembly and within the government to study and recommend constitutional changes which could be considered after the 1988 election.

Although at present the ROK government and the NKDP seem to be at an impasse over these issues, a compromise package likely will emerge in the future. As important as the outcome of the ongoing dispute is the negotiation process itself. As events in the Philippines have shown, a direct presidential election does not in itself guarantee "democracy." Neither is democracy simply a political system spelled out in a detailed constitution. It is, rather, a process that allows citizens to choose fairly their leaders. And it is a state of mind that allows differing views to achieve consensus on important national issues. This is the real challenge facing the ROK.

The next several years will be crucial to South Korea's political development. But the U.S. must give the South Koreans the freedom to resolve their own political differences. Washington's policy should be to continue to encourage dialogue between the government and the opposition. Unnecessary U.S. involvement could jeopardize a peaceful resolution because both sides might harden their positions in expectation of American support. Quite unlike the last days of the Marcos era, this is a situation calling for U.S. patience and noninvolvement.

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5/8/86 Number 9

PACKWOOD'S ALCHEMY COULD MAKE TAXES SIMPLE AND FAIR

(Updating Executive Memorandum No. 100, "The Rosty Horror Tax Bill Show," December 2, 1985.)

In a feat worthy of an alchemist, Senate Finance Committee chairman Robert Packwood, the Oregon Republican, has managed not only to salvage tax reform from a seemingly near certain death, but to transform it into a radical rewrite of the entire tax code. Packwood's accolades are well-deserved.

Two distinct ideas have provided pressure for tax reform: first is the traditional liberal idea that "loopholes" should be plugged to make the "rich" pay their "fair" share; second is the more recent compelling "supply-side" idea that marginal tax rates (the tax rate on the last dollar earned) should be as low as possible to stimulate risk-taking and work effort. The overarching goal, therefore, was to limit tax deductions and use the revenue gained from that to lower the marginal tax rate in a way that maintained total tax revenues at their present level.

The Senate Committee's unanimous proposal goes a long way toward achieving this goal. Marginal tax rates would be cut dramatically to just 27 percent, compared with the 70 percent rate when Ronald Reagan took office in 1981. Indeed, the top rate under Packwood's plan is even lower than that proposed by either Senator Bill Bradley (D-NJ) or Congressman Jack Kemp (R-NY), the two congressional leaders most closely associated with tax reform.

To obtain the revenue necessary to achieve this low rate, the plan envisions several steps to reduce the tax preferences available in the current code. Among them: by ending many incentives, taxes on corporations would rise by about $100 billion per year, a stiffer minimum tax on corporate and individual earnings would be imposed, so-called "tax shelters" would be curtailed, Individual Retirement Account (IRA) contributions would be limited, and the maximum tax rate on capital gains would be raised from 20 percent to 27 percent.

The revenue made available by these changes would allow some six million taxpayers to be dropped from the tax rolls altogether. This mainly is achieved by increasing the personal exemption from $1,080 to

$2,000. Also, the vast majority of taxpayers would be taxed at a single 15 percent rate--the 27 percent rate would only apply to taxable incomes above $22,600 for single persons and $42,300 for married couples. Thus the Packwood plan would come very close to a true "flat-rate" tax, where every American pays the same tax rate regardless of his income.

This is not to say there are no problems with the Packwood bill. The 35 percent increase in the maximum capital gains tax, for instance, could dampen the growth that would be stimulated by lower marginal tax rates. Entrepreneurs and venture capitalists, who have fueled so much of the growth in new industries in recent years, are particularly sensitive to taxes on capital gains.

But of much greater concern is the limitation on IRAs, making them available only to taxpayers not covered by a regular company pension plan. With the U.S. saving rate continuing to lag behind other industrialized nations, restricting one of the most popular savings incentives in the tax code could be very damaging. Moreover, reducing the attractiveness of private retirement saving would discourage private supplements to the embattled Social Security system. Congress will be shooting itself in the foot if it seriously weakens America's retirement system while trying to reform the tax system.

There are a number of items in the Packwood proposal which, by themselves, probably never could be enacted. However, by presenting these items as a package deal, with very little margin for adjustment, Packwood has forged a coalition which could well carry the day. The danger will come from special interests determined to maintain their special tax treatment, even at the cost of overthrowing the whole package. However, if the 20 members of the Finance Committee stick together, they will already have about 40 percent of the votes needed to defeat any special interest amendment. Moreover, Reagan has expressed strong support for the bill--not surprising since it closely resembles his November 1984 proposal and is the result, to a great extent, of the President having insisted stubbornly that tax reform and simplification were his No. 1 domestic legislative priority.

The chances are that either something like Packwood's proposal will be enacted or nothing will emerge from the Congress this year. Much will depend on the grass-roots support or opposition which emerges in the coming weeks. The initial reaction, however, seems positive, even among businesses and taxpayers slated to lose some benefits. Americans are clearly willing to support tax reform if it leads to genuine simplicity and fairness. And with such strong backing, the Packwood plan may lead to the most radical tax reform ever enacted in any major industrialized country. It could be a major element in the way the Reagan Revolution is changing America.

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THE LIABILITY INSURANCE CRISIS

(Updating Backgrounder No. 498, "The Liability Insurance Crisis: What Washington Can Do To Help," March 27, 1986.)

The Reagan Administration has sent Congress a legislative package to alleviate the nation's insurance liability crisis, which has developed after years of skyrocketing tort liability awards. The measures are being sponsored by Senators Robert Kasten (R-WI), Mitch McConnell (R-KY), and Strom Thurmond (R-SC) and Representatives Hamilton Fish (R-NJ) and Thomas Kindness (R-OH).

Since liability laws are mainly a matter of state, not federal, law, Congress and the Administration can do only so much. By using the bully pulpit of the presidency, Ronald Reagan has focused the debate on the central issue, the need for a thorough overhaul of the tort system. But there are problems with the proposed legislation. First, many of the substantive proposals contradict basic conservative principles while failing to advance the goal of a fairer, fault-based justice system. Second, in some cases, the proposals call for a wider federal preemption of state law than is warranted.

The package proposed by the Administration contains three bills. Two are concerned with lawsuits against the federal government and federal contractors, the third with product liability suits against manufacturers. The key elements in all three include:

o Elimination of "joint and several" liability as to defendants not acting in concert, so that a defendant's share of damages will not exceed his share of fault for an injury.

o Limitation of noneconomic damages to $100,000.

o Periodic, rather than lump-sum, payment of damages for future injury exceeding $100,000.

o Reduction of court awards by the amount that the plaintiff has already received from worker's compensation, employer-paid insurance plans, or government sources.

o Limitation of attorney contingency fees according to a set "sliding-scale."

o A national policy to encourage alternative dispute resolutions.

The legislation also provides that manufacturers not be held liable for injuries caused by defective products in cases where an adequate warning has been given, when the defect is apparent to a reasonable person or is a matter of common knowledge, or when the product was used or altered by the user in an unforeseeable way.

Many of these reforms would improve the tort system. Several, however, are unwise. In particular, the $100,000 limit on noneconomic damages seems unrealistically low, while the offset for other forms of compensation introduces an irrelevant factor into the tort system. Most important, the limit on attorney fees would establish price controls in the legal industry, clearly a violation of Ronald Reagan's free market principles.

This federal legislative package does not intend a wholesale preemption of state tort law. The first two bills, involving claims against the government and its contractors, seem appropriate areas for federal standards, given the direct federal interest. Some federal preemption of state product liability law is also warranted to ensure uniform standards for manufacturers. Currently, a national manufacturer must design and produce its products to conform with the products laws of each of the 50 states. Thus, the state with the most stringent law can often dictate standards for all the rest.

Some of the Administration's product liability reforms, such as capping noneconomic damages and limiting joint and several liability, do not involve the standard of liability for manufacturers. Such measures would limit the amount of liability, but would not address the standards for product design or manufacture. There being no apparent need for national uniformity, the rationale for federal preemption of state law is much more tenuous.

Where federal preemption is not warranted, the Administration should encourage reform by developing a model code for consideration by the states. By pursuing this option, the Administration could make a contribution without interfering unduly with matters of state law.

The Administration's efforts have added significantly to the debate on tort reform, and they have focused attention on the need for change. But federal legislation can help tort law reform only where it has a proper role. The most important federal job is to provide resources, information, and focus for the debate emerging in the states--where comprehensive reform must be made.

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WITH THE VETO, REAGAN CAN SALVAGE THE BUDGET

(Updating Backgrounder 443, "Reagan's Trump Card: The Veto," July 8, 1985)

The Budget Resolution that won easy Senate approval earlier this month was best described by Senator William Armstrong (R-CO). "Ronald Reagan won the election," said Armstrong, "but we are ending up with a Fritz Mondale budget." He is right. The bill collides squarely with every important element of the Reagan budget agenda: it would raise $13 billion in new revenues for FY 1987; it would slash Reagan's defense request by $19 billion; and it would leave domestic spending virtually unscathed. Now that the House has also passed a resolution with a similar pro-domestic spending tilt, this year's budget process is off to one of its shakiest starts in years. With the Administration's budget ignored by the President's own party, it is clear that this year's budget battle will ultimately come down to a contest of wills between Ronald Reagan and Congress.

Both the Senate and House versions of the Budget Resolution call for $13 billion in "unspecified revenue increases." This is a polite way of saying new taxes. Both cut defense spending: the Senate proposal cuts $19 billion and the House version a perilous $35 billion from the President's request. Finally, both budgets would terminate only two domestic programs: general revenue sharing and Conrail. This is the third consecutive year that budget resolutions have called for zeroing out revenue sharing, and yet it still exists. And the sale of Conrail faces an uphill journey.

The objective of the Budget Resolution is to inject discipline and spending restraint into the budget process by establishing overall spending targets. This seems to have been forgotten in the shuffle. What is worse, this year's Budget Resolution is tantamount to an admission that Congress will not bother to try to make sensible cuts in domestic programs--lawmakers just want more tax dollars so that they can avoid having to disappoint interest groups in an election year.

To force the budget back on the right track, the Administration must pursue a three-point strategy:

1) The President must reaffirm convincingly his intention to veto any bill that includes a tax increase, no matter how skillfully disguised. Reagan has promised this in the past, but since the passage of Gramm-Rudman, a mounting suspicion has emerged on Capitol Hill that in the end he will accept new taxes. This dangerous misperception must be laid emphatically to rest. The most powerful feature of the veto, after all, is that by brandishing it, the President can shape policies as they are being made by Congress. House Democratic leaders already have admitted that they will not push for new taxes if Reagan continues to reject tax hikes. By threatening the veto, Reagan can derail the tax-hike movement before it gets off the ground.

2) Reagan should vow to veto any appropriations bill that exceeds the benchmark levels in his budget. So doing, Reagan can hold Congressmen accountable to his budget, not theirs. This may also revive Reagan's January domestic spending cut proposals.

3) The Office of Management and Budget should step up its support of privatization and, to a lesser extent, user fees as a means of quenching Congress's thirst for new revenue. By moving federal functions into the private sector, Congress could cut costs and raise revenue while permanently reducing government's size.

Congress may be waking up to the privatization idea. For instance, even the House Budget Resolution recommends selling over $2 billion of the federal college education, rural housing, and Small Business loan portfolios. It also advocates user fees for about ten programs. Both initiatives deserve encouragement. The loan portfolios to be sold would be managed and collected more efficiently by commercial banks and private collection agencies, and these efficiency gains would be reflected in the price paid to the federal government. The sale of other federal assets already proposed by the Administration--such as the Naval Petroleum Reserve, Amtrak lines, weather satellites--could raise twice the revenue that Congress wants. Privatization, therefore, warrants an all-out push by President Reagan.

By adopting budget resolutions with large tax increases, the big spenders in Congress have won the first battle in this year's budget showdown. But if Ronald Reagan is prepared to use his veto power, he can still pull out a budget victory consistent with his spending priorities.

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6/5/86 Number 12

PRIVATE LAUNCHERS CAN EASE AMERICA'S SPACE VEHICLE CRISIS

(Updating Backgrounder No. 500, "What Next for NASA," April 4, 1986.)

The loss of the Challenger Space Shuttle has resulted in such a severe shortage of space launch capability that U.S. companies are turning even to the People's Republic of China to launch American satellites. Worse, the remaining three orbiters in the Shuttle fleet, Atlantis, Enterprise, and Columbia will be grounded until design flaws can be corrected, exacerbating the problem of the Challenger loss. The shortage threatens to rob the U.S. of its leadership in space exploration and development and could undermine national security. Moreover, when the Shuttle fleet again becomes operational, it is likely that it will be unable to meet the ambitious goal of 24 launches per year. The result: the current backlog of launch requirements will grow.

The National Aeronautics and Space Administration (NASA) contends that it expects the Shuttles to fly again by July 1987, reaching a rate of six to seven launches in the first year, nine to ten in the second year, and 12 to 13 each year thereafter. Based on NASA's current manifest, which lists payloads scheduled to be flown by the Shuttles, it would take until mid-1992 to catch up with its scheduled launches--provided no new payloads are added. Yet other launch requirements surely will appear, especially since the current manifest includes no launches related to deploying the proposed orbiting Space Station or the Strategic Defense Initiative. Clearly, an alternative launch capability is needed.

Acquiring this is relatively easy, at least technically, since three fully developed and well-proven Expendable Launch Vehicle (ELV) systems--the Atlas, Delta, and Titan rockets--are available. But funding will impose enormous problems because of the need to balance the federal budget. As serious will be the strong resistance from

NASA to the development of launch systems that might eventually compete with the Space Shuttle.

One means of overcoming some of these difficulties is to privatize the ELV systems. Private firms are prepared to reopen the production lines for these unmanned rockets and to provide a launch alternative. More important, private capital is available to finance an ELV capability. NASA therefore need not divert funds from its critical research and development activities. And ELV privatization would allow a private sector space industry to emerge in the U.S., giving added impetus to the commercialization of space.

For ELV systems to be privatized, a number of steps must be taken by the Reagan Administration. First, it must declare that the government will not compete with private firms for commercial launches. A major constraint on the development of private space launch capability has been the fear among potential investors that they will have to compete with subsidized government launches, where the federal government could undercut the private sector prices. Given the huge subsidy inherent in commercial launches performed by the Space Shuttle, this is a legitimate fear. NASA should not be allowed to undercut private launch companies with taxpayer dollars.

The second step must be a firm commitment to launch government missions on private ELVs when possible. This would be similar to the airmail contracts given to airlines by the Postal Service in the early days of commercial aviation, and would be consistent with the "contracting out" policy which the Administration applies in other areas.

Finally, the Administration should move rapidly to sign contracts with firms that wish to build ELVs. Transpace Carriers, Inc., for instance, is a private firm that has invested over $5 million in negotiating to purchase the Delta rocket system. But despite the commitment, and two years of talks, the company still has been unable to obtain a final agreement from NASA and the rights to the hardware. Such delays chill potential private investment.

Privatization of the existing ELV systems can alleviate significantly the space launch crisis. It can do so without taxpayer dollars. Moving rapidly forward with this strategy would not only address the immediate crisis, but lay the foundations for a strong, new American industry.

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THE MULTIFIBER ARRANGEMENT: U.S. GAINS FROM RELAXING ITS RESTRICTIONS

(Updating Backgrounder No. 458, "Why Limiting Textile Imports Would Hurt Americans," September 30, 1985.)

Under intense pressure from the U.S., some 50 nations signed the Multifiber Arrangement (MFA) in 1961. Its purpose was to protect U.S. textile manufacturers from competition from leading developing country suppliers. MFA assigned each signatory a specific quota of sales to the U.S. Though MFA's provisions exceeded the guidelines allowed by the General Agreement on Tariffs and Trade (GATT), the multilateral agreement that governs most world trade, they were accepted reluctantly by the signatories as preferable to tougher unilaterally imposed trade barriers that were being threatened by Washington.

MFA expires July 31 and is now up for renewal. The U.S. should be using this opportunity to abolish MFA and allow the American economy and consumers to benefit from lower cost textile imports. GATT, rather than MFA, should be governing the textile trade. Instead, however, because of protectionist pressure from Congress, the U.S. negotiator is seeking a tougher MFA that will impose more restrictions on textile imports, mainly those from Asian-Pacific nations that are the U.S.'s close friends and even allies--such as South Korea, Hong Kong, the Republic of China, and Singapore. This is a serious mistake.

In past decade, developing Asian countries have enjoyed the world's most dynamic economic growth, seeing their GNP increase an average of 6 percent annually (adjusted for inflation), compared to 2 percent average for the West's industrial nations. Asian prosperity, and resulting political stability, is mainly due to the adoption of an American-style market economy. The textile industry has played a vital role by earning needed foreign exchange and maintaining minimal foreign debt. Because of their textile sales, moreover, developing Asian countries have been able to buy more abroad and have increased imports on average almost 18 percent annually over the past decade. They also became less dependent on U.S. foreign aid. Their debt service ratio--17 percent in 1985--is the lowest of any region in the world.

Toughening MFA restrictions could have a devastating impact on Asian economic growth and the level of imports from the U.S. What is equally troubling is that MFA carries a whiff of racism. While the U.S. enforces the strict MFA restrictions against Asian nations, the Europeans get off almost scot-free even though European textile and apparel exports to the U.S. soared 27 percent last year while similar imports from Asia increased only 4 percent.

Extending MFA, moreover, is likely to prompt Asian countries to refuse to participate in the new round of GATT talks, which the U.S. seeks to open Third World markets more for U.S. agricultural and high-tech products and services. Another casualty of continuing MFA would be the American consumer. MFA already costs Americans between $23 billion to $38 billion each year in higher price tags for textiles and apparel. These higher costs distressingly are borne mainly by poor and working class Americans who buy the inexpensive Asian-made clothing.

Instead of seeking a more restrictive MFA, the Administration should seek to:

1) Renew MFA with a specific timetable to phase it out in five years. This would liberalize the textile trade while giving U.S. manufacturers time to adjust.

2) Bring the textile trade back under GATT's provisions to prevent unfair trade practices.

3) Convert quota restrictions into tariffs. Even under GATT, the U.S. could maintain some limits on imports. Doing so by quotas, as is the case with MFA, merely allows foreign businesses to reap higher profits. By contrast, tariffs at least provide revenue to the U.S. Treasury, thus benefiting all Americans.

4) Continue to exclude new artificial fabrics from the agreement.

5) Deal with sudden import surges or unfair trade practices by invoking current U.S. trade law. Section 201 of the Trade Act of 1974 covers cases of substantial increases in imports. Section 301 and other laws cover unfair practices such as dumping, subsidies, or market restrictions on U.S. goods.

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6/10/86 Number 14

IMPROVING TOXIC WASTE'S SUPERFUND

(Updating Backgrounder No. 440, "The Many Hazards of a Mega-Superfund," June 10, 1985.)

As House and Senate conferees move toward final agreement on the legislation to reauthorize the Superfund toxic waste cleanup law, a number of key issues still need to be resolved. Among them: how to finance the proposed expansion of Superfund from $1.5 billion to $8.5 billion; how much to spend on helping residents living near Superfund sites cope with the health consequences of a toxic spill or leakage; what standards to set for permissible levels of various toxic substances at sites; and how to create an inventory system to track chemical substances entering and leaving plants.

Raising the money to expand Superfund remains a hotly contested issue. The central dispute concerns the extent to which future revenues will be raised from the oil and chemical industry. At present, Superfund is financed primarily through a tax on the oil and natural gas used to make petrochemicals. Critics point out that these substances are not the source of most toxic wastes. In place of this tax, they propose a broader-based levy because, they say, all industries contribute to the creation of toxic waste. As such, Superfund should be financed by a tax on all sectors of manufacturing.

Many advocates of this "broad-based" tax view it as a means of instituting a national value added tax (VAT). The problem with this is that it would not link the amount each firm is charged with the amount of waste it generates. Far better would be to impose a user fee based on the actual volume of toxic waste a firm generates. Unlike a VAT, or indeed any general tax, this would create an incentive not to pollute.

The second area of concern relates to the cost of monitoring and assessing the potential health effects of a spill or leakage on residents living near a Superfund site, and that of providing treatment for resultant illnesses. While it is clearly the intent of Congress that victims of a spill be given such aid, a careful screening program must be established to prevent an uncontrolled expansion of eligible beneficiaries. Similar programs, such as that for the victims of Black Lung disease, expanded far beyond their original scope and cost. Without proper screening, that could also happen with the proposal in the Superfund reauthorization bill.

A third concern is the permissible levels of toxic substances allowed to be emitted from a Superfund site. Some lawmakers would impose stringent and uniform standards, leaving the Environmental Protection Agency little leeway to take into account local differences, such as the proximity of population centers. EPA, however, should be allowed to take into consideration such factors in determining when to declare a site non-hazardous.

The method of keeping track of chemical substances entering and leaving industrial plants is also a concern. One version of the Superfund reauthorization calls for "mass balancing"; this would require companies to keep precise track of every bit of raw material they use. While such a system may appear reasonable at first glance, there are serious questions as to whether such tracking can be accomplished, given the current state of technology. In virtually every manufacturing process, there are raw material losses that cannot be accounted for. Minute quantities of substances, for instance, can cling to machinery, pipes, and other equipment.

Many of the substances used in manufacturing, moreover, do not create toxic wastes. To require close and costly accounting of them, therefore, serves no useful purpose. In addition, taking the approach of counting "every sparrow that falls" may lead to widespread evasion of the costly regulations. A more workable and reasonable inventory system would allow for manufacturing losses and limit accounting to those substances known to present a hazard to human health.

Congress has determined that Superfund should be expanded. Given this decision, the House and Senate conferees should target federal expenditures on the cleanup of waste sites and on coping with the health effects of toxic spills, while creating incentives not to pollute. To do this, the financing of Superfund must be kept broad-based and related to waste emission. Outlays for health effects must be limited to those who can show they suffer health problems due to a toxic spill or leakage. Standards for classifying sites must be flexible. And a workable system for keeping track of hazardous substances must be devised. With these policies, the U.S. will be close to resolving, at last, its toxic waste cleanup problem.

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6/13/86 Number 15

U.S. CHEMICAL WEAPONS ARE NEEDED TO DETER MOSCOW'S POISON ARSENAL

(Updating Backgrounder No. 272, "Deterring Chemical War: The Reagan Formula," June 15, 1983.)

The U.S. chemical weapons program faces a showdown vote in Congress. Last year, Congress gave a conditional go-ahead and partial funding for the so-called binary weapons system, which is safer to transport and store than previous kinds of chemical weapons. The $21.7 million needed for production of the 155mm binary shell, however, was blocked until October 1, 1986, pending Pentagon compliance with three congressional conditions. This means that before Congress votes on the Fiscal Year 1987 $201 million binary weapons request, it will have to decide whether to free the FY86 funds for the 155mm shell.

The Reagan Administration from the start has sought to modernize the aging U.S. chemical stockpile of unitary munitions, those filled with an already lethal compound. A binary munition, by contrast, contains two harmless chemicals which only become lethal when combined upon firing. The U.S. ceased producing chemical munitions in 1969 in the hope that the Soviet Union would also. As such, the chemical ordnance in the U.S. stockpile is designed for artillery and aircraft no longer in service. To make this weapons/munitions mismatch even worse, vast quantities of ordnance are leaking and unsafe to handle. The chemical agents currently available, moreover, do not give U.S. forces the flexibility required to retaliate against attacks from Soviet chemical weapons. And Moscow's refusal to accept rigorous verification procedures dims hopes for an effective global chemical weapons ban. So seriously has the U.S. arsenal deteriorated that only about 10 percent of U.S. unitary chemical weapons are useable; this comprises a mere 25 percent of U.S. chemical deterrent requirements. By 1990, even these weapons will probably be useless because of agent and electrical component deterioration.

Not only are binary weapons safer to store and transport, they also can be deployed aboard ships and be airlifted without elaborate security precautions. This allows for enormous flexibility in deploying them. And because binary weapons are easily disposed of after their shelf-life has expired, they are environmentally safe.

Moscow's vast chemical weapons stockpile is ten times larger than the shrinking U.S. arsenal. It contains short-lived and persistent nerve gas, blister agents, and exotic compounds against which the West still has to develop defenses. Some of these were field tested against Freedom Fighters in Afghanistan, Laos, and Cambodia. Chemical weapons are fully integrated with Soviet conventional and nuclear ordnance and can be delivered with virtually any weapons system--artillery, multiple rocket launchers, tactical missiles, and aircraft.

The triple congressional conditions on the FY86 Defense Appropriations bill require: 1) the Pentagon to submit a report on "Bigeye" bomb testing; 2) NATO to adopt formally U.S. chemical weapons modernization as a Force Goal; and 3) NATO to approve production of the 155mm artillery round.

One obstacle to congressional approval appears to be the troubled "Bigeye" binary bomb designed to strike distant enemy targets with the longlasting chemical agent VX. A GAO study has concluded that the bomb has serious problems, which the Pentagon denies. But these problems are unrelated to other aspects of the binary program.

The other sticking point is whether NATO actually has adopted U.S. chemical weapons modernization as a Force Goal, and approved production of the 155mm artillery shell. Approval of a Force Goal requires only that NATO's Defense Planning Committee accept the U.S. program. This it did on May 16. Critics contend that NATO approval requires a vote of the North Atlantic Assembly. But this body deals only with political issues. Vocal opposition to the U.S. program by the Netherlands, Norway, and Denmark does not change the fact that U.S. chemical weapons modernization now is a NATO Force Goal.

To be sure, no NATO ally has agreed to accept peacetime deployment of binary chemical weapons on its soil, though West Germany has volunteered to receive them in a crisis. But West European reluctance to accept chemical weapons does not reduce America's urgent need for a modern chemical arsenal to deter Soviet use of poison weapons. The binary chemical arms can be shipped to Europe more quickly than unitary munitions. Production of binaries, moreover, may prod Moscow to negotiate a verifiable regional or global chemical ban. This would create a vastly safer world than one in which the Kremlin wields the sole chemical weapons club.

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6/24/86 Number 16

WITH SENATE HELP, THERE COULD BE NEW HOPE FOR INNER CITY HOUSING

(Updating Backgrounder No. 359, "Public Housing: From Tenants to Homeowners," June 12, 1984.)

The housing reauthorization bill passed by the House of Representatives June 12th is a major step toward a landmark change in the nation's housing policy. Amendments to the legislation, passed by a remarkable coalition of liberals and conservatives, could pump new life into America's depressed inner cities. The problem is that the House also adorned the bill with wasteful new spending and failed to eliminate many pet urban programs that benefit developers rather than cities. As a result, the bill is considerably over budget and thus risks a presidential veto. To avoid this and save the important new approach to housing in the bill, the Senate must take tough action to trim the legislation down to size.

The bipartisan amendments are a signal by the House that federal housing and development policy must take a bold new direction, learning from earlier successes and failures. An amendment sponsored by Steve Bartlett, the Texas Republican, for instance, would divert $860 million in public housing funds from construction to the rehabilitation of existing units. Since many cities have public housing vacancy rates exceeding 15 percent, thanks to a dilapidated stock, the Bartlett amendment is a sensible step. And by improving the projects already built, it would help remove the pall of hopelessness that comes with boarded-up units.

Amendments co-sponsored by Jack Kemp, the New York Republican, and Walter Fauntroy, the District of Columbia Democrat, would empower public housing tenants to run their own projects, recognizing that self-help brings benefits to residents and taxpayers alike. The Kemp-Fauntroy amendments would encourage tenant management in projects and, in a dramatic move, give tenant groups the right to purchase public housing units at a discount. In addition, low-income Americans

would be given greater choice over where they can live by a change that would make Section 8 rent assistance "portable." And in a long-overdue step, the House gave overwhelming support to an amendment by Robert Garcia, the New York Democrat, to establish up to 100 enterprise zones, a program designed to spur economic activity in depressed neighborhoods by reducing red tape at all government levels. State versions of enterprise zone legislation already have been enacted by more than two dozen states.

Passage of these amendments reveals that lawmakers are learning from recent experience. The record shows that when poor, public housing residents are given the chance to run their own projects, the results can be impressive. In 1982, for instance, the Kenilworth-Parkside project in Washington, D.C., was transferred to resident control. A recent analysis by the international accounting firm of Coopers and Lybrand indicates that the tenants have cut operating costs significantly, boosted rent collections by 77 percent, reduced the vacancy rate by two-thirds, and halved the rate of welfare dependency thanks to jobs in the project created by the management team. These savings and new revenues, say the accountants, will add close to $10 million to Washington's tax collections by the end of 1991.

But there is a catch under existing law. Because they are tenants, these savings provide no direct benefits to residents. The Kemp-Fauntroy amendments would change this by allowing resident-managers to use savings to fund housing improvements and self-help programs--rather than having to return the cash to housing bureaucrats. The homeownership amendment means ultimately that residents could turn savings into equity by becoming homeowners. Bartlett rightly describes these changes as "the dawn of a new day in federal housing policies."

Though the measure has won enthusiastic support of both conservative Republicans and inner city public housing residents, it still has a long way to go. Because of special interests determined to keep the federal gravy train running, there are many provisions in the bill that will push outlays well over the level set by the federal deficit reduction guidelines. This means that Ronald Reagan may be forced to veto the bill, throwing out the good with the bad--or else risk opening the spending floodgates. Only decisive action by the Senate can pare down the bill to an acceptable level of spending. It is thus essential that Senators take a sharp budget knife, while preserving the historic amendments passed by the House, so that the U.S. at last can have a housing policy which lives within budget and yet gives real hope of improvement to inner city Americans.

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The Heritage Foundation
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7/24/86 Number 17

IRAS: HELPING THE MIDDLE CLASS ENJOY RETIREMENT

(Updating Backgrounder No. 513, "40 Million Americans Can't Be Wrong: Save the IRAs," May 27, 1986.)

As House and Senate conferees try to iron out their differences on tax reform, a top priority should be to save the deduction for Individual Retirement Accounts--popularly known as IRAs. This can be done while maintaining the low tax rate structure of the Senate bill.

IRAs have proved effective in channeling private resources into retirement savings. Already 40 million individual Americans, comprising one-third of all households, have deposited more than a quarter-trillion dollars in IRAs--mainly in just the last four years. And most of these IRAs are held by middle-class Americans. The popularity of IRAs also seems to be accelerating rapidly, with increasing numbers of individuals deciding to participate or adding to existing accounts every year.

These private resources are absolutely necessary if America's future retirement needs are to be met. Policy makers are already debating where to obtain the resources to finance long-term nursing home care for tomorrow's elderly, to help pay for retiree medical care, and to cover the enormous retirement demands posed by the aging baby boom generation. Social Security and pensions do not appear adequate to meet these needs. Without the highly successful IRA system building up private resources, the burden inevitably will fall on government. The result: higher government spending and taxes.

America's national retirement policy is often said to be based on the concept of the "three-legged stool"--Social Security, pensions, and private savings. IRAs support the private savings component. Without these accounts, private savings cannot be expected to perform an adequate role in the face of the treble tax burden which otherwise applies to savings and capital under the current tax system. Returns to savings and investment are subject to corporate income tax, personal income tax, and capital gains tax. IRAs represent fair and sound policy precisely because they remove the discriminatory multiple-tax burden on private savings.

IRAs are the most flexible, best-suited retirement vehicle for the modern, highly mobile, and diverse American work force. They are the only vehicle available to virtually all workers in all circumstances. They avoid all vesting problems, since funds paid into an IRA immediately belong to the workers. They end all portability restrictions, since the IRA funds are under the worker's ownership and control wherever he or she goes. They offer workers greater freedom and self-reliance than Social Security or company pensions, where the worker's retirement income is in the hands of others. And IRAs build among workers a sense of personal responsibility for their own future retirement needs.

The encouraging impact of IRAs in increasing savings has also been generally underestimated. Harvard economist David Wise recently reviewed data regarding individual savings behavior and found that the sums most individuals save in their IRAs are substantially greater than what they would have saved otherwise. Wise calculates that between 50 percent and 80 percent of IRA contributions and investment returns represent added savings for the economy. Without IRAs, the American middle class would not save much of its discretionary income.

If tax rates are lowered generally, the immediate tax benefits of an IRA contribution of course will be reduced. This will affect the initial decision to save. As Wise explains, the rush to open IRAs just before April 15th indicates that the immediate tax relief on the deduction is far more important to most savers than other considerations. So even if taxes are lowered on the withdrawal of IRA funds during retirement, as the Senate bill proposes, it would still be necessary to retain the existing IRA deduction for workers to have a strong inclination to contribute to IRAs. It is even more important to retain full deductibility if tax rates are lowered, since the after-tax "cost" of a contribution to an IRA would in any case rise. Ending deductibility would thus be a double whammy for the saver. Indeed, for some workers, the IRA benefits under current law are as much as 66 percent greater than would be the case under the Senate bill, assuming contributions of equal after-tax cost.

House and Senate conferees should understand why they have received so much pressure from their constituents on the IRA issue. The IRA deduction must be retained because it makes sound retirement policy. And clearly the American people now consider the IRA as an essential private supplement to the overstretched Social Security system.

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The Heritage Foundation

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8/1/86 Number 18

ROMANIA BREAKS ITS BARGAIN WITH THE U.S. ON TRADE FAVORS

(Updating Backgrounder No. 441, "Why Romania No Longer Deserves to be a Most Favored Nation," June 26, 1985.)

Each summer the U.S. reviews its decision to grant Romania "Most Favored Nation" (MFN) trade status. This privilege has proved very lucrative for Romania, which last year sold the U.S. $928 million in goods but bought only $203 million in American products in return. Romania's MFN status is always under scrutiny because the Jackson-Vanik Amendment of 1974 prohibits granting such status to nations denying their citizens the right or opportunity to emigrate and/or impose more than a nominal tax on citizens who wish to emigrate. The President may waive the prohibition annually, subject to congressional approval, if it appears that liberalized emigration and human rights policies may result. Presidents and Congresses have waived the ban on Romania since 1975. Romania's totalitarian regime, however, consistently has broken its part of the bargain.

This year the time at last has come to declare Romania in violation of the Jackson-Vanik conditions and to withdraw from that country its MFN privilege. Romania fails to allow thousands of its citizens to emigrate and harasses who have applied to leave for the West. Many of those who do emigrate to Israel and Germany reportedly have been "sold" by Bucharest, which charges those countries thousands of dollars per person in direct violation of the provisions of the Jackson-Vanik Amendment. Moreover, Romania's human rights record has deteriorated steadily in the past ten years. Examples:

EMIGRATION. "Many thousands of people wish to leave Romania" according to testimony by Nina Shea of the International League for Human Rights on June 10, 1986, before the House Subcommittee on Trade. Merely for requesting permission to leave, Romanians are harassed, often lose their jobs, housing, access to medical care, face public denunciation and even arrest. Many elderly and ill applicants, as well as small children whose parents are already abroad, are denied permission to emigrate altogether. Western diplomats, moreover, confirm that Romanian government officials demand bribes of up to $3,200 in exchange for emigration papers.

FREEDOM OF RELIGION. Distribution of religious literature "by unauthorized individuals" is punishable by severe prison terms. The Evangelical Christian churches have been treated especially harshly, according to the U.S. Helsinki Watch Committee. Several historic Baptist churches have been demolished. So have several major Jewish synagogues as part of a policy to obliterate Jewish culture. Some 20,000 Bibles sent by the World Reformed Alliance to Hungarian Reformed Church members were confiscated and recycled into toilet paper.

REPRESSION OF THE AGED. According to independent reports by relatives of Romanians in the U.S., in the past year Romania has begun refusing to give medical treatment to those over age 75. A program announced by President Nicolae Ceausescu in September 1985, meanwhile, forces pensioners to "relocate" from cities to the country, which for many of them means intense suffering and even death because of the harsh conditions. The reason for these policies apparently is to reduce government expenses.

TERRORISM. Former U.S. Ambassador to Romania David Funderburk charges many of the 20,000 Arab students in Romania are being trained as terrorists outside of Bucharest. The implicit terrorist link was confirmed officially in 1983 when Romania signed a Friendship Treaty with Libya. And according to the surviving terrorist at the December 1985 Rome Airport massacre, the terrorists who that same December day had attacked the Vienna Airport had received help from Bucharest. Romania also wages a terrorist war against Romanians living abroad. General Ion Pacepa, former deputy director of the Romanian secret service who defected in 1978, has revealed that the Romanian government has a complete, computerized data bank on Romanians in exile, and uses beatings, kidnappings, and assassination to punish those who criticize Romania's communist regime in the West.

Consistently, Romania demonstrates it is no friend of the U.S. Bucharest works closely with Soviet intelligence agencies against Western interests and Romania shares with Moscow defense-related technology obtained from the U.S. At the United Nations, meanwhile, Romania voted with the U.S. last year only 14.6 percent of the time, a more dismal record than even Poland and just a shade better than Soviet Union's 12.2 percent. To make matters worse, Romania increasingly is believed to be involved in promoting narcotics trafficking into the U.S.

One thing is clear, Romania's enjoyment of Most Favored Nation trade privileges with the U.S. has not encouraged Bucharest to temper its repressive policies at home or its anti-American activities abroad. It thus is time for Washington to face the reality and deny Romania its MFN free ride.

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Backgrounder UPDATE

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8/6/86 Number 19

SELLING CONRAIL: TIME FOR CONGRESS TO NAME THE BUYER

(Updating Issue Bulletin No. 113, "Giving Conrail a Green Light," February 15, 1985, and Backgrounder Update No. 5, "The Conrail Sale: Still the Taxpayers' Best Deal," January 20, 1986.)

It seems that everyone agrees on at least one thing: the federal government should sell Conrail. The problem is that Congress cannot make up its mind who should be allowed to buy it. In 1981, Congress ordered the railroad sold. Last year, after evaluating several bids, the Administration presented a plan to sell Conrail to the Norfolk Southern Corporation. This was approved by the Senate by a vote of 54 to 39 on February 4. Yet the House still has not taken action, despite strong assurances from the leadership of the House Energy and Commerce Committee that it supports the sale. Time is now running out. With the 99th Congress nearing adjournment, and the bidders becoming increasingly frustrated, the chances of a sale of Conrail this year are slipping away. Congress must act quickly to get this sale moving again.

When Transportation Secretary Elizabeth Dole announced her plan to sell Conrail to Norfolk Southern in February of last year, it appeared that the federal railroad soon would be on its way to the private sector, where it belongs. Norfolk Southern is a well-qualified buyer--and the deal would be a good one for the taxpayers, Conrail's employees and Conrail customers. Yet the proposal has met with opposition from labor unions, competing railroads, Conrail management, and many shippers, who view the proposed merger as a potential threat to their interests.

After the plan passed the Republican-controlled Senate, it ran into serious trouble at the House Energy and Commerce Committee. After months of hearings and negotiations, Chairman John Dingell, the

Michigan Democrat, announced that, while he strongly supported privatization, he would block a sale to Norfolk Southern because of concerns about the impact of the merger on competition in the industry. An overwhelming majority of the committee evidently shares his view. To make matters worse, the Interstate Commerce Commission voted in July to prevent two Western railroads--the Santa Fe and the Southern Pacific--from merging, an action which has strengthened the hands of lawmakers opposed to Norfolk Southern.

Conrail's sale to Norfolk Southern still makes good sense. But if the deal is stuck in legislative gridlock, other alternatives must be considered. The most promising is a public offering of stock. Such offerings have proved a very effective strategy for transfering public enterprises to private hands in Great Britain. Stock sales, which include attractive purchase options for such potential opponents as management, customers, and employees, have built strong constituencies favoring privatization. This strategy has enabled the British government to win overwhelming public support for the sale of billions of dollars of government assets, including in 1984 the $5 billion stock sale of British Telecom, the nation's telephone system. This was the world's largest public offering ever.

A well-constructed public offering could help create such a coalition for a Conrail sale. By providing management, employees, and shippers with the opportunity to buy stock at attractive terms, many current opponents would find good reason to support the privatization process. And unlike a sale to an existing railroad, Conrail's continued existence as an independent carrier would remove concerns about reduced competition. There is strong political support for a public offering among members of the House Committee, including Chairman Dingell and ranking Republican Norman Lent of New York.

Concerns have been raised whether Wall Street could absorb the nearly $2 billion sale of Conrail shares. It would be, after all, the largest public offering ever for the U.S. Yet these concerns are misplaced. Britain's much larger British Telecom was sold in a stock market one-eighth the size of the U.S. market. Moreover, a recent $1.3 billion stock offering by Allied Signal Corporation caused hardly a blip on Wall Street. Nor would a public offering mean the government necessarily would have to take its chances with the uncertainty of a volatile stock market. Under one of the bids now before Congress, a group of investors would hand Uncle Sam a check for Conrail and then structure the offering themselves. All risk would be borne by private investors with a guaranteed sale price to the taxpayers.

Members of the Energy and Commerce Committee are still weighing the alternatives for Conrail. Recently Representative Billy Tauzin, the Louisiana Democrat, tentatively proposed legislation to reopen the bidding, requiring the Department of Transportation to accept the highest qualified offer. Soliciting, preparing, and evaluating new bids, however, would take an additional six months to a year. If

another railroad were the high bidder, the resulting ICC review could take another two and one-half years. Such a delay at this time would call into question the future of Conrail. The Tauzin proposal, of course, would make more sense if the delays could be avoided.

The House Committee should end the delay and uncertainty by voting quickly on the rival bids, including those for a public stock offering, and send its recommendation to the House floor for prompt action. And as it makes this clear-cut choice, the Committee should set four basic requirements for an acceptable sale:

1) Congress should not burden Conrail with unnecessary restrictions on its operation. The more Congress limits the flexibility and discretion of Conrail's management, the less successful the new company will be.

2) The sale must not be tied to any proposal to reregulate railroads. The 1980 deregulation of the industry has been credited widely with helping Conrail out of the red and with improving the health of the industry. These gains must not be traded away as the price for Conrail's privatization.

3) The plan must not leave the federal government in the railroad business. The U.S. taxpayer's interest in Conrail must be sold entirely and immediately.

4) The plan must not involve further delay of Conrail's privatization. It is now five years since Congress first ordered the sale and two years since the Administration presented its plan. There have been countless congressional hearings and exhaustive investigations by several federal agencies. Starting a new round of bids is a foolish policy if it means months or even years of uncertainty for Conrail's customers and employees. And further delay would reduce the chances of the sale ever taking place. While there now is an overwhelming consensus in favor of a sale, this may not last for long, and Conrail could be left indefinitely in federal hands.

Congress has before it two sensible options for the sale of Conrail: the Norfolk Southern bid and a public offering. If Chairman Dingell is serious about selling Conrail, he should hold an immediate vote on the rival plans.

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8/8/86 Number 20

WHY REAGAN SHOULD GIVE A GREEN LIGHT TO PRIVATE SPACE LAUNCHERS

(Updating Backgrounder No. 500, "What Next for NASA," April 4, 1986, and Backgrounder Update No. 12, "Private Launchers Can Ease America's Space Vehicle Crisis," June 5, 1986.)

The Cabinet-level Economic Policy Council last week proposed sweeping changes in the way that the United States launches commercial satellites. If executed, the plan would open the door to the development of an American private sector launch industry. It also would help reduce much of the satellite launch backlog that has resulted from the loss of the Challenger Space Shuttle, the grounding of the remaining three orbiters, and the serious technical problems with America's three unmanned rocket systems.

The plan calls for barring the National Aeronautics and Space Administration (NASA) from using Space Shuttles to launch commercial satellites except when the Shuttle is the only vehicle capable of doing so or where there is an overwhelming foreign policy or national security interest. The Economic Policy Council proposal also would require NASA to terminate six current agreements to launch commercial satellites. The Council's proposals would boost the private launch industry by eliminating the fear within the investment community that private launch firms would have to compete with heavily subsidized government launch services. This concern has been the principal obstacle to raising money for private launch services.

A private launch industry would ease the enormous backlog of unlaunched private and government satellites. Most of the 43 commercial and foreign satellites currently waiting to be launched could be carried by unmanned rockets (known as Expendable Launch Vehicles, or ELVs). This would leave the three remaining Space Shuttles free for manned missions or those involving national security.

Because private firms entering the launch business would be investing their own capital to reopen the now closed ELV production

lines, NASA and the taxpayer would be relieved of the need to spend between $200 million and $400 million to open those lines. By creating strong price competition in a market where none currently exists, moreover, launch options available to firms wishing to deploy satellites would increase and costs would fall. Finally, the firms initially offering launch services would become the nucleus of a new full-scale commercial space industry, promising untold commercial possibilities. There could be, for example, enormous export potential as carriers for foreign payloads.

The proposed new policy is essential for private launches. Regrettably, NASA is lobbying vigorously against it. The space agency was the only dissenting vote in the Economic Policy Council meeting that set the new launch initiative, and it consistently has opposed attempts to reduce its domination of space-related activities. This has been particularly true in the area of launch services using ELVs, despite a 1984 Presidential Directive mandating cooperation in efforts to privatize these unmanned rockets. In recent weeks, as the likelihood of a Cabinet-level decision in favor of ELV privatization became apparent, NASA intensified its obstruction, encouraging Members of the House and Senate to introduce legislation blocking it. NASA also has been issuing press statements questioning the viability of private launch services and dragging its feet on finalizing agreements to privatize ELV systems.

NASA ignores that fact that there really is no option to ELV privatization if the U.S. is to solve the current launch shortage. In a time of budgetary austerity, federal funds will not be available to open ELV production lines without serious cutbacks in other programs, including possibly the proposed Space Station. Worse, the lack of space launch capacity already has begun affecting military launches. As a result, many vital defense programs, including intelligence gathering and monitoring capabilities for arms control compliance have been undermined. The creation of a strong private launch capability would help alleviate these shortages.

NASA's footdragging on privatizing ELVs has led to a dangerous and embarassing irony: America, once the world's space exploration and development leader, is now dependent on other countries, even the People's Republic of China, to launch its satellites. Ronald Reagan must ensure that NASA stops undermining his space commercialization initiative. He should endorse forcefully the sensible recommendations of his Economic Policy Council, thus setting the stage for the birth of a private American launch industry. The U.S. already has lost too much time to the maneuverings of federal bureaucrats who want to keep control of commercial space development in their own hands.

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The fall in world oil prices coincided with an attempted coup d'etat by a rightist Air Force general--a move tellingly supported by leftist militants who unceasingly have opposed Febres Cordero's attempts to replace Ecuador's socialist-oriented economy with a free market system. Loss of export earnings, moreover, prompted spending cuts for housing for the poor and infrastructure development, leading to social unrest. Public impatience with the government's efforts to restore economic health helped Febres Cordero's political opponents in the June 1 congressional elections when center-left and Marxist candidates won control of Ecuador's congress. These hostile forces are expected to use every legislative device at their disposal to block the free market program. The resulting paralysis of the government, meanwhile, would lead to more terrorism and subversion by Alfaro Vive Carajo (AVC) guerrillas, communist revolutionaries with strong ties to Nicaragua and Libya.

If Febres Cordero's economic strategy is stalled before it can demonstrate its effectiveness, the free market approach to solving Latin America's problems would suffer a serious setback. Leftist economic strategies are largely discredited, but for free market alternatives to win popular backing, they have to be given a chance to succeed.

Ecuador needs immediate U.S. economic assistance to help reduce the budget shortfall caused by falling oil prices. Although a $150 million short-term bridge loan made by the U.S. Treasury in May has lifted some pressure off the country's finances, it cannot provide the long-term fiscal strength needed to maintain political stability and assure the success of Febres Cordero's reforms. Another $150 million should be made available with credit terms tailored to Ecuador's special situation.

The security of Latin America depends on economic as well as military assistance. Recognizing this, Congress voted $300 million for Central American economic aid when it approved the $100 millon military-economic aid package for Nicaragua's Freedom Fighters. Ecuador's role in the long-term stability of the Western Hemisphere cannot be underestimated. It is truly a model for the type of economic and political system that, if given the chance, will provide a major deterrent to the advance of communism.

Ecuador has broken its decades-old cycle of stagnation and inertia and moved decisively into the modern era. The Febres Cordero administration's belief in individual enterprise and smaller, more efficient government offers a sharp contradiction to the myth of Latin sloth and statism. Even in an era of Washington budget-cutting, no price should be put on supporting an ally whose policies offer hope not only for Latin America but for all the developing world. The U.S. must not miss its chance for a major foreign policy success story in Ecuador.

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UPDATE

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ECUADOR'S BOLD EXPERIMENT DESERVES U.S. HELP

(Updating Backgrounder No. 479, "Ecuador as a Model for Latin American Development," January 10, 1986.)

Without prompt U.S. aid, Ecuador's bold free market experiment in economic revitalization may never have the chance to prove its value as a model for Latin American development. Ecuadorean President Leon Febres Cordero's strategy to reduce his country's debt and rejuvenate its economy through market-oriented growth is now threatened by falling oil prices, a leftist-dominated Ecuadorean Congress, and a growing communist insurgency. Failure of the free market model in Ecuador would inflict a major defeat on the Reagan Administration's Latin American policy.

Following his inauguration in August 1984, Febres Cordero began reversing years of economic statism, mismanagement, and corruption with sweeping structural reforms based on the free market. Controls on prices and foreign exchange were abolished, state-owned enterprises sold, and the bureaucracy streamlined. Foreign investors were welcomed back, while the government made impressive gains in reducing Ecuador's $6.85 billion foreign debt through its own version of the "Baker Plan" more than a year before U.S. Treasury Secretary James Baker unveiled his innovative solution for Third World debt. Alone among Latin American leaders, Febres Cordero has demonstrated support for the Reagan Central American policy by breaking diplomatic relations with Nicaragua and denouncing consistently its communist Sandinista government.

Though he is only halfway through the single four-year term allowed by the Ecuadorean constitution, Febres Cordero's free market initiative is now imperiled. Although a program to lessen Ecuador's dependence on oil revenues by diversifying exports has been underway, petroleum remains the country's economic lifeblood. This spring's dramatic decline in oil prices therefore jolted the Ecuadorean economy, forcing cutbacks in government development programs and threatening the carefully structured debt reduction plan.

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THE LEGAL SERVICES CORPORATION: TURNING BACK THE CLOCK

(Updating Backgrounder No. 496, "New Ways to Provide Legal Services to the Poor," March 19, 1986.)

Nearly buried beneath the important legislation that must be considered by the Congress before it adjourns next month is a bill providing funds to the Legal Services Corporation for the next fiscal year. Contained in H.R. 5161 as reported last month by the Senate Appropriations Committee, this legislation provides $305 million for the LSC next year (the same amount allocated for this year), but strips the LSC of much of its ability to monitor how that money is used. This will impede the LSC from ensuring that its funds are not used for political purposes. Worse, the legislation would severely restrict the LSC's ability to develop better ways of providing legal services to those who cannot otherwise afford them. The only winners under this legislation would be the agencies now profiting from LSC grants. The losers would include the poor and America's taxpayers.

The appropriations bill now pending before the Senate would:

o Cut funding for "program development" activities to $1.3 million, down from last year's $1.9 million. The LSC had planned to spend $4 million on these activities next year. Over the past few years, under its Reagan-appointed directors, the LSC has explored and tested new ways of delivering legal services to the poor. It has launched pilot programs involving the contracting out of legal services to private law firms and the use of legal service "vouchers," and has explored the feasibility of "judicare" systems for legal services. Particularly successful have been law school clinic programs in which law students are allowed to represent clients in simple cases. These innovative programs are threatened by the funding limitation proposed by the Senate committee. This cut would not even save the taxpayers money--the funds simply would be transferred to existing field programs. Worse, taxpayers would lose in the long run, as they lose the benefits of more efficient delivery methods.

o Require the LSC to spend over $15 million to continue funding national and state support centers. These centers provide research support for LSC-funded legal service agencies. This support, however, is very often of little value to attorneys in the field. Worse, the centers often have been used for political advocacy. The LSC currently plans to stop funding these centers directly. Funds rather would be given to local legal service grantees, allowing them to decide how much to give to the centers. This way the centers would not be abolished, but would be forced to be more responsive to the needs of the local agencies. The Senate proposal would halt this sensible reform in its tracks.

o Prohibit the LSC from issuing regulations on lobbying. Hoping to end the advocacy abuses which had plagued and almost destroyed the LSC, Congress beginning in 1979 strictly limited lobbying activities by LSC funded lawyers. Because the statutory language was unclear, the LSC issued regulations regarding these limits, which were revised this year. The Senate bill, however, would force the Corporation to try to enforce the anti-lobbying restrictions "without regulation." This is a silly proposal. If the LSC misinterprets a statute, Congress can always correct it. But to forbid it to issue regulations altogether ensures continuation of the present uncertainties, thus making the ban against lobbying virtually unenforceable. LSC-funded lawyers once again would have a blank check to play politics at the expense their clients--and the taxpayers.

o Cut the LSC budget for management and administration from the present $10.7 million to $5.7 million, transferring the funds to other LSC activities. The result would be that the LSC would have to restrict sharply--or even eliminate--its monitoring of grant recipients, giving them a free hand to spend, or waste, their funds without oversight. Backers of the bill maintain that no real cutback in monitoring would be necessary, as the LSC can employ unspent funds carried over from FY 1986. LSC officials deny this. The Senate must determine the facts of this situation before approving such a potentially disastrous cutback.

The bill pending in the Senate hinders LSC efforts to stop lobbying, halts useful research into LSC alternatives, forces funding of research centers at the expense of local agencies, and possibly stops vital monitoring functions. It would be harmful to taxpayers and legal service clients and must be given closer examination by lawmakers.

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'85 Econ Council Budget

MR. PRESIDENT, DON'T BLINK: VETO THE MONSTER CONTINUING RESOLUTION

(Updating Backgrounder No. 443, "Reagan's Trump Card: The Veto," July 8, 1985.)

Ronald Reagan will soon be getting from Congress a $500 billion budget-busting bill, technically called a Continuing Resolution, that mocks the 1984 election and the desire of the American electorate for a balanced budget. In the past, Reagan has been reluctant to exercise the veto. Now is the time to stop being reluctant. In the showdown with Congress, Reagan must dare it to "make my day." To use the veto against the continuing resolution would honor its intended purpose as explained in Federalist 73: "It [the veto] establishes a salutary check upon the legislative body, calculated to guard the community against the effects of...any impulse unfriendly to the public good...."

The continuing spending resolution contemplated at present by Congress would drive the budget more than $200 billion into the red. It would extend funding for many pork-barrel domestic programs that Reagan has repeatedly denounced. And it seeks to evade the tough budget balancing choices that voters enthusiastically endorse. A veto by Reagan of the $500 billion continuing resolution would be applauded by the people. The likelihood of a congressional override is virtually nil.

Reagan's popularity is at an historic high at this time in his presidency. His recent veto of a protectionist textile bill was upheld by the Congress, although that legislation was far more popular than a continuing spending resolution. Historically, moreover, less than 10 percent of vetoes have been overridden between 1945 and 1986.

Congress needs a continuing resolution because it has failed to pass specific appropriations bills to fund the government after October 1, when the 1987 fiscal year begins. A continuing resolution generally keeps government expenditures at the past fiscal year's levels, which means continuing massive deficits. Moreover, because of its monster size and asserted necessity to prevent government

collapse, a continuing resolution typically contains a plethora of budget-busting favorite programs of Congressmen. They hope that fears of chaos if the government shuts down will force Reagan to sign a continuing resolution.

Reagan need not fear such chaos. His veto of the continuing resolution would not jeopardize essential government operations. The Antideficiency Act of 1906, for example, would permit federal expenditures to safeguard human life and property. Thus, military personnel, prison guards, and law enforcement officers and national security employees would continue to perform as usual, as would other persons discharging essential government functions.

Entitlement programs such as Social Security, Medicare, supplemental security income, or unemployment compensation would be unthreatened. These programs are based on legal contractual arrangements not dependent on specific appropriations bills. Thus, arguments that a veto of the continuing resolution would cause government chaos or hardship to government beneficiaries are specious.

Politics largely evolves around symbols. The continuing resolution symbolizes that Congress is not serious about a balanced budget and the Gramm-Rudman legislation. A veto by President Reagan sustained by Congress would symbolize a tough political resolve to end spendthrift government expenditures. And that symbol would be influential in future spending battles with Congress during the remainder of the Reagan presidency.

The continuing resolution is an effort by Congress to make President Reagan blink when budget cutting is at stake. Reagan should greet the resolution with the same unblinking attitude he has voiced in defense of Nicholas Daniloff and thus exercise the veto.

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SOUTH AFRICA SANCTIONS: BLACKS WOULD SUFFER THE MOST

(Updating Backgrounder 427, "An Investment Strategy to Undermine Apartheid in South Africa," April 30, 1985.)

Ronald Reagan will decide this week whether to veto the "Comprehensive Anti-Apartheid Act of 1986," a package of punitive economic sanctions aimed at forcing the South African government to speed the dismantling of apartheid, its institutionalized system of racial segregation. For the past two years the President has come under fire from Congress for refusing to impose such sanctions. He has argued that sanctions will not work, and will in fact hurt the very people they are designed to help. Reagan is right on both counts and should veto the legislation. The Congress should allow the veto to stand and then support constructive measures to encourage the development of a multi-racial political and economic structure.

The sanctions package on the President's desk was passed by the Senate in early August and by the House two weeks ago. It includes a ban on imports of South African uranium, coal, textiles, iron, steel, and agricultural products; a prohibition against the export to South Africa of computers, nuclear-related goods and technology, and petroleum products; a ban on new loans and new investment; and it revokes landing rights for South African Airways.

Supporters claim that such a package will not cause serious damage to the South African economy, but will merely "send a signal" to Pretoria. In fact, the measures are wide-ranging and will have a significant impact. The ban on agricultural product imports, for example, will cause the loss of almost 450,000 black jobs. Since each South African worker on average supports five persons, over 2 million blacks would lose their primary means of support. The bans on imports of coal, iron, steel, and textiles would entail the loss of some 187,000 jobs, and some 940,000 would suffer as a consequence. Just from these measures alone, then, some 3 million blacks--roughly 15

percent of the entire black population--would be deprived of their livelihood.

Despite the claims of supporters of sanctions, the pain would not be felt by the South African government. Pretoria recently announced that it had been stockpiling strategic materials for the last ten years, in preparation for just such sanctions. With a 2500-mile-long coastline, moreover, South Africa could without much difficulty obtain materials it has not already stockpiled.

History teaches that external pressures are not successful in modifying fundamental Afrikaner attitudes. The voortrekkers settling the interior of South Africa in the 1830s deliberately isolated themselves from the West; and in 1899, Afrikaners went to war with the British Empire at the height of its global power--and held on for almost four years--rather than accept outside domination. In 1977 the United Nations imposed a mandatory arms embargo on South Africa. Forced to develop its own arms industry, South Africa by 1986 was the 10th largest exporter of arms on the world market, and the U.N. was reduced to asking its members not to buy arms from Pretoria.

Clearly, then, sanctions will not achieve their purported purpose: they will not force the Afrikaner government to speed the dismantling of apartheid. That is not to say, however, that sanctions will not have a significant impact; millions of blacks will lose their livelihoods. And that is the true irony of the situation: for in poll after poll, significant majorities of black South Africans have opposed the imposition of sanctions.

What is needed instead is a strategy to increase Western contact with--and hence influence in--South Africa. The U.S., therefore should not withdraw investment from South Africa; rather it should increase Western investment there, while continuing to place diplomatic pressure on Pretoria.

President Reagan has taken a courageous stand against those who would make policy on the basis of short-term domestic political considerations to the detriment of both U.S. interests and the interests of South African blacks. Sanctions will result in a lessening of Western influence for positive and peaceful change and will lead to a further political polarization that can only benefit forces seeking a radical and anti-democratic outcome. The President should veto the sanctions package and Congress should sustain his action. Then they can continue through other, more productive, methods to encourage Pretoria to speed apartheid's demise.

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THE CONRAIL SALE: BACK ON TRACK

(Updating Backgrounder Update No. 19, "Selling Conrail: Time for Congress to Name the Buyer," August 6, 1986.)

The sale of Conrail is finally back on track. The House on September 24 passed legislation providing for a public stock sale of the federally owned freight railroad. The Senate passed similar legislation five days before, and a conference committee will meet soon. The House bill is far from perfect--for instance, it still includes a labor protection provision that will make it more difficult for railroads to sell off uneconomic lines--but with appropriate conference action, it will be a good blueprint for the sale.

For almost two years, the Conrail sale had been locked in a seemingly unresolvable stalemate, with Secretary of Transportation Elizabeth Dole advocating a sale to Norfolk Southern railroad, while many key congressional leaders demanded a public stock offering. On August 24, however, Norfolk Southern withdrew its bid for Conrail. Secretary Dole immediately threw her support to the public stock offering idea, leaving virtually no opposition to that method of sale.

Under the House version of the Conrail sale bill, included in the budget reconciliation bill:

* Conrail stock would be sold by the U.S. government on the stock market for a minimum price of $1.7 billion.

* An additional $300 million would be paid directly to the U.S. Treasury from Conrail before the sale.

* The Secretary of Transportation would select investment banking firms to be "co-managers" for the sale.

* Several restrictions would be placed on Conrail's management for the first five years, including limits on payment of dividends and required minimum levels of capital expenditures.

* With certain exceptions, no individual or organization would be allowed to own more than 7.5 percent of the company for the first five years.

The Senate measure, included as a single paragraph addendum to the budget reconciliation bill, simply directs the Secretary of Transportation to sell the railroad, providing few other details.

Both houses wisely decided not to tie the sale to legislation to re-regulate the rail industry. In 1980, when the railroad industry was partially deregulated, it was in dismal condition. Constrained by regulation, railroads continually were losing business to their trucking rivals. With the new freedom and flexibility allowed under deregulation, the situation has improved dramatically. Most significant has been the turnaround of Conrail itself. After years of subsidies, the company is now making a healthy profit. A return to regulation could torpedo these advances.

But there are still several problems with the sale plan. First, all railroads will be required to pay up to $25,000 to employees whose jobs are affected by the sale of unprofitable branch lines. Major railroads often sell off money-losing routes to short-line railroads, which can operate them at a profit, thus ensuring continued service to shippers. Mandating "labor protection" payments when these sales occur would discourage such beneficial transactions.

Second, the sale plan will drain large amounts of cash from Conrail, reducing its market value and future prospects. In addition to transferring $300 million directly to the Treasury, the bill revalues Conrail assets in a way which will increase the company's tax bill next year alone by an estimated $200 million. This raid on Conrail's cash could dim investor interest in the public offering--threatening the entire sale.

Lastly, the selection of investment bankers to manage the public offering must be given close attention. The choice should not be influenced by politics, as it is crucial that Mrs. Dole choose the best bankers available. The selection must be made on the basis of the bank's financial expertise and knowledge of Conrail--and its enthusiastic support for a public offering. Foreign experience shows that the choice of an investment bank can make or break a privatization offering. The complex nature of the Conrail sale makes a sound choice almost a precondition for success.

After a long struggle, it now seems that Congress finally will vote to return Conrail to the private sector. Congress and the Administration should be congratulated for their apparent success--but now they must make sure that the railroad is sold professionally and in good financial condition.

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UNEQUAL PAY FOR EQUAL WORK: THE FALLACIES OF "COMPARABLE WORTH"

(Updating Heritage Lecture No. 63, "Comparable Worth: Pay Equity or Social Engineering?" February 5, 1986.)

Proponents of "comparable worth" plan to attach a bill (S. 519) to the Continuing Resolution. If enacted by Congress, "The Federal Employee Anti-Sex-Discrimination in Compensation Act" would:

o establish a nine-member Commission on Compensation Equity to select a consultant to study whether federal wage-setting practices are in compliance with laws prohibiting sex discrimination;

o require the consultant to assign valuation points to different jobs as a means of ranking them and to compare the rankings to determine whether there is wage discrimination between males and females doing work of comparable skill, effort, and responsibility under similar working conditions; and

o require the Director of the Office of Personnel Management to prepare a plan and timetable for implementing the consultant's recommendations.

It is economically senseless, and illegal as well, to deny equal pay for equal work and equal opportunity for women in hiring and promotions. It is just as senseless, however, to mandate equal pay for unequal work. And this is what S. 519 effectively will do. The bill's enactment would be viewed as congressional endorsement of the doctrine of comparable worth. This would send a new and confusing message to the courts regarding the intent of Congress in the case of existing antidiscrimination laws, such as the Equal Pay Act of 1963, and Title VII of the Civil Rights Act of 1964. The legislative history of the Equal Pay Act, for instance, reveals that Congress has explicitly rejected comparable worth as an aspect of pay equity.

Most federal judges, together with the Department of Justice, the Equal Employment Opportunity Commission, and the U.S. Commission on Civil Rights, have rejected comparable worth evaluations as a valid way to identify sex-based wage discrimination. And the General

Accounting Office has expressed serious reservations about even conducting a federal comparable worth study, noting that comparing the value of different jobs is inherently a subjective exercise. Moreover, Title VII of the Civil Rights Act of 1964 sensibly requires a demonstration of intentional discrimination--that is, an employer must be shown to be setting the wages in a female-dominated job below the market rate because of gender. The total disregard in the comparable worth legislation for this "intent" requirement renders it extremely confusing as a legal doctrine.

Basing a decision concerning wage discrimination among dissimilar jobs on a consultant's opinion, rather than the marketplace, is to ignore the law of supply and demand as well as any semblance of objectivity. The consultant is to determine a job's worth by assigning weighted values based on skill, effort, responsibility, and working conditions, then totaling the points for each job. Jobs with the same total, even if very different in nature, would be defined as of comparable worth to be paid at the same rate. Yet this supposedly objective system of job evaluation is in fact subjective because a person, the consultant, would make personal decisions as to the relative significance of each factor. And with a different consultant, discrimination would disappear in one set of jobs and appear in another. This has happened when states have sought to establish a scale of job evaluations. In the Fall 1986 Policy Review, Richard Burr, an analyst with the Center for the Study of American Business, notes that a secretary would be ranked first among three jobs in Washington State and Iowa, but last in Minnesota and Vermont. Clearly, comparable worth is a concept riddled with flaws and contradictions.

If wages in America were to be evaluated and ordered by a new layer of bureaucracy, the result would be artificial wage differentials, leading to shortages of workers in some occupations, surpluses in others, and a boost in total unemployment. In the real world, the wage differential between jobs reflects the value that employers place on the contributions of different groups of workers to the final product, together with the scarcity of qualified workers relative to the demand for their contributions. Only supply and demand can determine value.

The tools best suited to prevent sex-based wage discrimination are those that have been used effectively over the past twenty years, chiefly Title VII, which guarantees women an equal opportunity to compete for jobs traditionally dominated by men, and the Equal Pay Act, which enforces the principle of equal pay for equal work. These laws improve the operation of the labor market by promoting the free flow of workers to the jobs where they can be most productive. Comparable worth would abandon this sound approach, substituting the judgments of an army of highly subjective bureaucrats for those determined objectively by the free market.

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RESPONDING TO LIBYA'S TERRORIST WAR

(Updating Backgrounder Update No. 3, "Libya Must Pay a Price For Terrorism," January 9, 1986.)

American policymakers once again are confronted with the specter of an undeclared war of terrorism waged by Libya's Colonel Muammar Qadhafi. The U.S. response must be firm and telling. The next time a Libyan terrorist plot against America is uncovered, the U.S. should target not only Libya's terrorist infrastructure, but also Libya's facilities for exporting the oil that finances its terrorism. In the meantime, Washington should press its European allies to forgo purchases of Libyan oil until Libya ends its anti-Western shadow war.

The April 15 American airstrike against Qadhafi forced a remission of Libyan-supported terrorism. The Libyan terrorist network, exposed by American intelligence, was disrupted by the expulsion of more than 100 Libyan "diplomats" and businessmen from Europe. The Libyans have reorganized their network and apparently have renewed their activities. Tripoli's involvement is suspected in a foiled plan to attack the U.S. embassy in Togo in July, an August mortar attack on a British airbase in Cyprus, and the September 5 hijacking of an American airliner in Karachi, Pakistan.

Ronald Reagan clearly did not expect to end Libyan terrorism in a one-shot quick fix in April. He described the reprisal as "but a single engagement in a long battle against terrorism" and threatened future reprisals if Qadhafi continued his undeclared terrorist war on the U.S. The April airstrike enhanced deterrence of state terrorism by raising the perceived risks of terrorist activities. Within Libya it shattered Qadhafi's image of invincibility, underscored his vulnerability, and demonstrated his diplomatic isolation. The mercurial Libyan withdrew from the public eye, reportedly incapacitated by a severe bout of depression. The Reagan Administration launched a war of nerves using military exercises and press leaks in an attempt to keep Qadhafi off balance. Ultimately, however, economic pressures and not psychological warfare or military reprisals have the best chance of toppling Qadhafi.

Although American bombers pose a threat that Qadhafi cannot ignore, what he fears most is the wrath of his own people. A growing number of Libyans have been alienated by Qadhafi's increasing repression, economic mismanagement, revolutionary gibberish, and costly military adventurism in Chad. Because of repeated assassination attempts, the Libyan dictator travels in armored convoys and constantly moves his headquarters. He distrusts his own army and has created the Revolutionary Guards, a 50,000 man force of his most zealous followers, to guard against military coups.

Qadhafi's Achilles' heel is the Libyan economy, which depends on oil exports to the industrialized West. Washington should press its western European allies, who together provide more than 80 percent of Libyan oil revenues, to stop subsidizing Libyan terrorism. While Europeans have resisted such economic sanctions in the past, the oil glut should make it easier for them to find ready substitutes for Libyan oil and the growing backlash against terrorism should make it politically easier to forgo trade with Libya. Washington should give European refiners added incentive to boycott Libyan oil by banning imports from refineries that purchase Libyan crude oil.

Washington also should press its European allies to close down the "People's Bureaus" and the offices of Libyan Arab Airlines that have become nerve centers of terrorism. The State Department should warn American tourists of the dangers of visiting any nation that refuses to do so. European states that become conscientious objectors in the war on terrorism should not take American tourists--and American tourist dollars--for granted.

The next time that Qadhafi is caught red-handed sponsoring terrorist attacks against Americans, the U.S. should destroy the oil terminals that sustain Libya's economy and it should block Libyan oil exports, by a naval quarantine, if necessary, until Qadhafi is driven from power. Air attacks should be launched against Libyan terrorist training bases and Revolutionary Guards units, sparing wherever possible regular army units that may contain disaffected army officers bent on ousting their foolhardy leader. The giant stockpiles of Soviet-supplied tanks and warplanes that Libya has amassed in remote desert camps also should be prime targets. This would minimize civilian casualties and impose a multi-billion dollar price tag on Qadhafi's terrorism. The U.S., in cooperation with France, also should step up aid to the government of Chad in its long-running struggle against northern rebels backed by Libyan troops. This would fuel Libyan discontent about Qadhafi's unpopular war in Chad. By taking these and other actions, the U.S. can underscore the costs of Qadhafi's leadership to the Libyan people and help unify the large but divided opposition in exile.

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MAKING ROMANIA PAY FOR VIOLATING WORKERS' RIGHTS

(Updating "Why Romania No Longer Deserves to Be a Most Favored Nation," Heritage Backgrounder No. 441, June 26, 1985.)

The United States extends a special trading privilege, called the Generalized System of Preferences, to many developing nations. GSP allows these countries to send their goods to the U.S. duty-free. Since 1976, Romania has enjoyed GSP privilege. Last year, of the $928 million in Romanian goods exported to the U.S., $139 million were duty-free. In exchange for its GSP status, as mandated by the Trade Act of 1974 and reaffirmed in 1984 by P.L. 98-573, Romania must abide by "internationally recognized worker rights." This means respecting the right of association, the right to organize and bargain collectively, a minimum age for the employment of children, acceptable conditions of work with respect to minimum wages, hours of work, occupational safety and health, and prohibition on the use of forced labor.

The sad fact is that Romania consistently violates the conditions set for the GSP. As such, Romania should lose its GSP privilege. This could happen by January 4, 1987, when Ronald Reagan is required to report to Congress whether Romania deserves to continue benefiting from GSP. His report will have to deal with the issue of workers' rights. According to pages 1080-81 of the State Department Country Reports on Human Rights Practices for 1985, "workers [in Romania] do not have the right to organize or bargain collectively." Romania's labor code is basically silent on the right to strike. And the government's reaction to actual strikes, or to advocacy of the workers' right to strike, has been harsh repression.

Example: In 1977, there were widespread strikes in the Jiu Valley coal mines; thousands of workers were fired or sent back to their native villages. The leaders were arrested. Example: An attempt in 1979 to form a Free Trade Union of Romanian Workers was quickly

quashed. According to Amnesty International, two leaders of the movement were confined to psychiatric institutions while a third was sentenced to eighteen months imprisonment.

These actions prompted an investigation in 1980 by the International Labor Organization. Four years later, the ILO found that Romania's response to allegations made against it, and to charges that its constitution in fact violated international labor standards, was inadequate. The ILO requested that Romania accept a fact-finding mission. Romania refused not only such a mission but also to respond before the ILO to further charges about its labor policies.

A new decree, moreover, now places those entering the labor force in what amounts to indentured servitude. All are forced to remain at their first assigned jobs for at least five years or forfeit half of the wages. Students are forced to work. In summer 1984, for instance, three million young people were sent into the countryside to help with the harvesting--at no pay. And authorities continue to make calls regularly for days of "patriotic labor," during which workers are not paid for their labor.

The "worker rights" provision was written into the GSP legislation partly because of the insistence of the American Federation of Labor and Congress of Industrial Organizations (AFL-CIO) to ensure the promotion of trade unions in developing countries. U.S. labor unions thus should demand that the White House take into account the status of labor in Romania when it comes to assessing Romania's trade status.

In view of Romania's consistent violation of the conditions of the GSP, the Reagan Administration should end Romania's right to export goods to the U.S. duty-free. The President should tell Congress on January 4, 1987, that Romania has failed to comply with the legal requirements for the GSP. This should be followed by a prompt proclamation, whose effect would be to remove Romania from the list of countries eligible for the GSP. The U.S. Customs Service will then enforce the decision.

By withdrawing GSP from Romania, the President can make a powerful statement of U.S. support for human rights in general and workers' rights in particular.

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