the number of countries armed with missiles more than doubled during the past decade, to 18. The United States and the Soviet Union began developing ballistic missiles in 1953, and until recently they shared the missile manufacturing monoply only with France and China. All four became active missile merchants. And now new missile makers are emerging.

The list of Soviet customers is daunting. Libya, Syria, Iran, North Korea, Algeria, Egypt, and Iraq are among those who have obtained the Soviet Scud B. The North Koreans made an enhanced version of the missile, with Chinese help, and now they are peddling it in the world arms market. Iraq also modified the Scud B, doubling its range to 375 miles, and is working on three other missiles based largely on Scud technology, including the three-stage Abid, which was successfully tested last December. Iraq, of course, is also working on nuclear weapons.

In 1972, the United States provided Israel with 160 Lance missiles, which can travel up to 70 miles. In 1988, China sold Saudi Arabia powerful CSS-2 ballistic missiles, putting parts of Europe, the Soviet Union, and much of the Middle East within the Saudi's range. And while the French have so far refused to export ballistic missiles, Argentina used a French-built Exocet cruise missile to sink a British cruiser during the 1982 Falklands War, and an Iraqi Exocet badly damaged a U.S. destroyer five years later, during the Iran-Iraq War.

Recently, some smaller countries have launched their own missile development programs. Israel's nuclear-tipped Jericho II can fly 900 miles, far enough to reach Egypt, Syria, Jordan, Iraq, Iran, the Gulf States and parts of the Soviet Union. With a range of 1,500 miles, India's Agni missile, based on French and Soviet technology, can easily reach Pakistan, India's long-time antagonist.

Pakistan's less powerful Haft I missile can destroy a target 62 miles away, and the Haft II, which is under development, reportedly can fly 180 miles. And India and Pakistan are both believed to be capable of manufacturing nuclear weapons. Meanwhile, building on technology from their own space programs, Argentina and Brazil are developing missiles intended primarily for export. Argentina's Condor I has a 60-mile range, while Brazil's forthcoming Avibra has a range of 180 miles. Libya and Iraq are interested in buying it.

Unfortunately, the authors say, it is much too late to put the genie back in the bottle. The U.S. strategy of trying to prevent missile proliferation is obsolete. Rather, they conclude, the major powers must work harder to prevent regional conflicts from erupting into war. And they ought to try to reduce military uncertainty—perhaps by making satellite surveillance data available to all—that might encourage Third World leaders to launch their deadly new weapons.

ECONOMICS, LABOR & BUSINESS

A Century of Scandal

"Is Deposit Insurance Necessary? A Historical Perspective" by Charles W. Calomiris, in *The Journal of Economic History* (June 1990), Folsom Library, Rensselaer Polytechnic Inst., Troy, N.Y. 12180-3590.

Greedy bankers, sleepy regulators, and sleazy politicians are the usual villains of America's savings-and-loan debacle. Maybe so, many economists say, but the real root of all evil is far more banal: government deposit insurance.

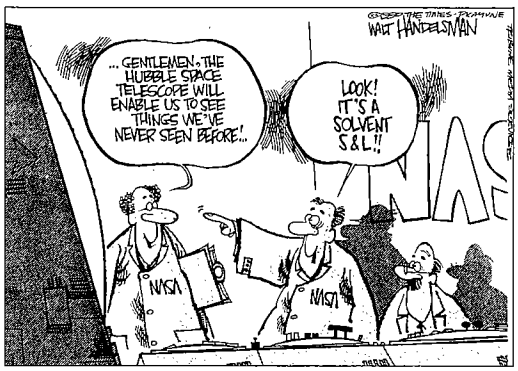
Such insurance encourages high-risk ventures, especially by banks with little capital left to lose. Calomiris, an economist at Northwestern University, writes that it also allows "unscrupulous, or simply inexperienced, entrepreneurs to enter

banking as a means to finance their risky enterprises." Insured depositors have little incentive to move their money elsewhere; bankers have little reason to crack down on their colleagues.

All of this has been known for more than a century. In 1829, the state of New York created a Safety Fund for its banks; it collapsed only 13 years later under the weight of accumulated bank failures. Vermont and Michigan established similar systems, which suffered the same fate. Indiana, however, established a private co-insurance scheme in 1834. (Iowa and Ohio later set up successful private systems.) Instead of making limited contributions to a state-run fund, all member banks were liable for the losses of any one bank in the system; the banks set up their own regulatory authority. "Unlimited mutual liability provided bankers the incentive to regulate and enforce properly," Calomiris observes. During the panics of 1854–1857, not a single member bank failed, but 69 of the remaining 126 Indiana banks did.

History repeated itself during the early 20th century, when eight states followed the New York example. Banks in these states were smaller but grew faster than those in other states, and they maintained lower capital ratios—both danger signs. During the farm crisis of the 1920s, all eight deposit insurance systems collapsed.

Calomiris hopes that the lessons of the past won't be forgotten this time. Self-regulation and co-insurance would work as well for banks today as they did in the past. (In fact, today's futures clearinghouses operate successfully in this way.) Washington would need only to regulate the private insurance groups, not thousands of individual banks. But Calomiris does say that it ought to step in to prevent a systemic collapse if more than a few banks in a group fail. For as the Great Depression shows, no insurance scheme will work if the government itself is reckless.



A cartoon suggests that the cost of the nation's savings and loan disaster has reached outer space. The latest estimate: up to $500 billion.

Fortress Europe?

"Europe 1992: Opportunities and Challenges" by Gary Clyde Hufbauer, in *The Brookings Review* (Summer 1990), 1775 Mass. Ave. N.W., Washington, D.C. 20036.

Judging by the headlines, you would think that Japan is this nation's only major trading partner and competitor. It is easy to forget that the 12 nations of the European Community (EC) purchase a quarter of all U.S. exports, more than any single nation. And nearly half of the $76 billion that the EC spends in the United States buys high technology products.

While fears of a Fortress Europe have subsided, notes Hufbauer, an economist at Georgetown University, new rules formulated by the EC as it moves toward political and economic integration in 1992 and beyond threaten to erode these valuable markets. And if that integration is successful, Europe soon could pose as great a challenge to U.S. economic leadership as Japan does now.

The short-term threat to U.S. markets is posed by the formulation of EC policy in five areas: reciprocity, national quotas, technical standards, rules of origin and local content, and government procurement. Some EC protectionist measures are aimed at Japan but hurt the United States. For example, the EC recently revised so-called rules of origin so that manufacturers must actually lay semiconductor circuits on the chip in Europe (rather than