RESEARCH REPORTS

Reviews of new research by public agencies and private institutions

"The Reagan Experiment"

Urban Institute, 2100 M St. N.W., Washington, D.C. 20037. 600 pp. $29.95 cloth, $12.95 paper.
Editors: John L. Palmer and Isabel V. Sawhill

President Reagan took office determined to chart a "fundamentally different [domestic] course" for the United States. But 28 specialists commissioned by the Urban Institute say that budget cuts and policy changes during the first 18 months of Reagan's tenure do little more than "turn back the clock" to the early 1970s under Richard Nixon.

Today, for example, federal outlays consume a record 24.2 percent of the gross national product (GNP). By 1985, Washington's share of GNP is expected to drop to 19 percent—a return to the level of a decade earlier.

In a few cases, such as job training programs, the $32 billion in Reagan fiscal year 1982 cutbacks radically reduced funding to pre-Great Society levels. But many of the affected programs were "of dubious value," write Palmer and Sawhill, co-directors of the Urban Institute's Changing Domestic Priorities Project. A loose legislative consensus already existed for cuts in such programs as guaranteed student loans, public service employment, housing finance subsidies, and trade adjustment assistance.

But in 1982, 77 categorical grant programs were consolidated into nine block grants, and aid fell by $14 billion from the projected level of nearly $100 billion. Financially strapped state and local governments were unable to make up many of these cuts.

Medicare and Social Security escaped nearly unscathed in 1982; by 1986, they will account for over one-half of all federal domestic spending. The $130 billion in revenue increases and/or spending cuts needed to balance the 1986 budget will force these programs to face the budget ax.

Moreover, note Palmer and Sawhill, "The Reagan counterrevolution in social and economic policy is potentially profound, but still in its infancy." Reagan's greatest change so far has been to focus public debate on ideas that run counter to American public policy since the New Deal. The notion of helping only the "deserving poor" rather than redistributing income, for example, has not been officially embraced since Franklin Roosevelt occupied the White House.

And if Congress adopts President Reagan's "New Federalism," assigning welfare and other big social programs to the states, it will turn the clock back past the New Deal. Federal aid would comprise only three to four percent of state and local budgets by 1991, less than at any time since 1933.

"Government Support for Exports: A Second-Best Alternative"

Lexington Books, 125 Spring St., Lexington, Mass. 02173. 128 pp. $16.95.
Authors: Penelope Hartland-Thunberg, Morris H. Crawford

Industrializing Third World countries are a key market for Western and Japanese manufacturers. But American exporters are losing ground: Between 1972 and 1975, the U.S. share of manufactured exports to the Third

World dropped from 27 to 22 percent. One reason: Governments in other developed nations subsidize exports. Washington must respond with "countersubsidies" for American firms.

So argue Crawford, head of International Informatics, and Hartland-Thunberg, an economist at the Georgetown Center for Strategic and International Studies, which sponsored this report. So far, they say, U.S. firms have remained competitive overseas by being on the leading edge of technology. In 1980, for example, aircraft, telecommunications gear, computers, and semiconductors alone accounted for $31 billion of the $144 billion in U.S. manufactured exports. But that lead is fading, due in part to competitors' more effective research and development (R&D) efforts.

While U.S. public and private sector R&D outlays ($45 billion in 1977) top those of 15 chief competitors combined, only 46 percent of the total has commercial applications—compared to 71 percent of Japan's $14 billion.

But the authors do not favor a larger research role for Washington. The federal government already spends half of all domestic R&D dollars, more than in any other industrial country. Instead, they say, Washington should spur domestic private-sector efforts by granting new tax incentives.

The authors also recommend bigger federal export subsidies. The U.S. Export-Import Bank is authorized to extend $4.4 billion annually in long-term, low-interest credits to foreign buyers. But other nations do more: There are virtually no limits on what French government export agencies can draw from the national treasury. And all industrial countries except the United States provide "mixed credits," combining loans with direct grants to customer nations through regular foreign aid programs.

Expanding Export-Import Bank financing and providing mixed credits would provide a quick fix. But to minimize government interference in markets, Washington could encourage exporters to make their own low-interest loans to buyers by allowing them to deduct from their federal taxes the difference between the interest they charge and the prevailing rate.

Why worry about exports at all? U.S. manufacturers need worldwide markets to survive. If they are driven from foreign markets, the authors warn, the United States will not only lose prestige overseas, but the damage to its domestic economy will be grave.

"Urban Decline and the Future of American Cities"

The Brookings Institution, 1775 Massachusetts Ave. N.W., Washington, D.C. 20036. 309 pp. $26.95 cloth, $10.95 paper.
Authors: Katherine L. Bradbury, Anthony Downs, and Kenneth A. Small

Downtown revivals in some of America's blighted big cities—Detroit, Baltimore—have raised hopes of an urban "renaissance." But Bradbury, a Boston Federal Reserve Board economist, Downs, a Brookings Senior Fellow, and Small, a Princeton economist, see no turnaround in the fortunes of American urban centers.

Population in the biggest cities began falling off during the 1950s. By the mid-1970s, 97 of the 153 cities with populations over 100,000 were shrinking. And local government outlays rise as population goes down: During the 1970s, declining large cities spent

roughly 35 percent more per capita than growing cities.

The changing composition of cities has made footing the bill harder. In 1950, central cities were 12.2 percent black; in 1980, 22.5 percent. From 1975 to 1978, males moving out of the cities had a median income of $12,411—compared to $10,240 for new arrivals.

The authors hold out little hope for change. Contrary to some predictions, higher energy prices will not lure suburbanites back to the cities. New price hikes of up to $1 a gallon for gasoline and $.75 for heating oil would cost suburban commuters only $250 a year more than city-dwellers—and commuters hold only 18.6 percent of jobs in cities.

"Public policies," say the authors, "should not seek to reverse or even to halt" urban decline. Instead, they should address the problems faced by remaining residents.

Cities need more money and more flexibly designed policies. Federal policies, the authors say, could include wage subsidies to employers to encourage hiring of the jobless. Federal education "vouchers" would allow poor city-dwellers to decide what schools their children should attend, thus increasing competition (and quality) in the school system. Housing vouchers would enable poor urban-dwellers to escape "socioeconomic segregation" and move to the suburbs.

The authors also advocate replacing mandated federal programs with a system that would allot a lump sum of federal aid to each city, letting local officials "buy" only those federal programs that meet local needs.

Such changes, the authors concede, will not come quickly. But when Americans finally realize that the cities need help, they will act.

WILSON CENTER PAPERS

Summaries of key reports given at recent Wilson Center meetings

"A Century of United States-Korean Relations"

Conference sponsored by the Wilson Center's East Asia Program, June 17–19, 1982. Ronald A. Morse, moderator.

During the 100 years since its first formal contacts with the United States, Korea has constantly looked to Washington for protection from hostile foreign powers—and has often been disappointed. That one-sided relationship is beginning to change, say the 21 participants in this Wilson Center conference, as South Korea's economic power grows.

Ties between the two nations date to 1882, when King Kojong signed the Treaty of Amity and Commerce with the United States to counter the territorial designs of Japan, Russia, and China. But when Japan declared Korea its protectorate in 1905, U.S. President Theodore Roosevelt refused to intervene.

After World War II, Korea was partitioned along the 38th parallel by the emergent superpowers, and the South became a U.S. protectorate. American troops were withdrawn in 1949 after civilian rule was established. Within a year the North invaded, and the United States once again stepped in.

But U.S. policy continued to be er-