aide, respectively, arms build-ups now planned by Great Britain and France could make them nuclear powers of the first rank—and pose nearly as much of a challenge to Washington as to Moscow.

Both of these U.S. allies already maintain small nuclear forces: a combined total of 300 warheads in land- and submarine-based missiles. Moscow's installation of new SS-20 missiles targeted on Western Europe and European doubts about Washington's commitment to defend the North Atlantic Treaty Organization (NATO) at all costs prompted the Anglo-French plans. During the next 20 years, Great Britain plans to spend \$20 billion and France \$30 billion to modernize and expand these forces to a total 1,200 warheads.

Yet, the authors argue, the dynamics of the arms race assure "that Soviet strategic concerns will soon become American strategic concerns." The twin build-ups will mean more missiles beyond Washington's control, will complicate NATO efforts to unify military commands, and will probably trigger another Soviet arms-buying spree. Paris and London, meanwhile, are sure to skimp on all-important conventional forces to help finance their new nuclear arms. France already plans to cut its total troop strength (290,000) by 35,000 over the next five years.

France and Great Britain both have been "standoffish" about participating in future Soviet-American arms control talks, say the authors. Washington should encourage them to participate. The *prospect* of large European nuclear arsenals would be a valuable bargaining chip at East-West arms control talks; actually creating such arsenals could cause as many problems as it might solve.

ECONOMICS, LABOR, & BUSINESS

Examining U.S. Trade Deficits

"The American Trade Deficit in Perspective" by Arthur F. Burns, in *Foreign Affairs* (Summer 1984), P.O. Box 2515, Boulder, Colo. 80321.

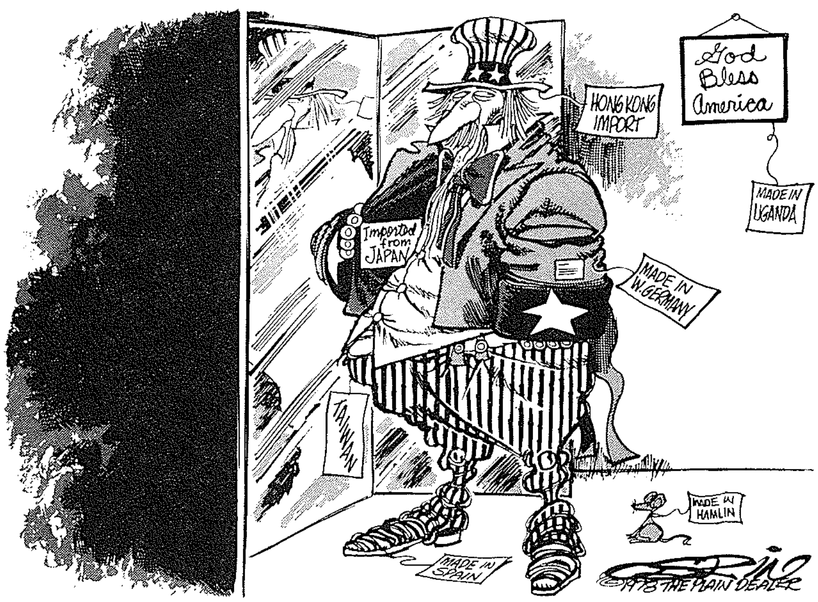
America's foreign trade deficit will probably reach a record \$100 billion this year. It is a problem worth worrying about, writes Burns, former chairman of the Federal Reserve Board and now U.S. ambassador to West Germany, but not for the reasons most analysts cite.

The United States enjoyed foreign-trade surpluses for most of the years after World War II, until rising oil prices and stiffer overseas competition began during the early 1970s. By the end of the decade, annual trade deficits of about \$30 billion were routine. Such figures, however, measure only trade in goods. Offsetting surpluses from other branches of international commerce, notably services (e.g., engineering, banking) and income from overseas investments, kept total U.S. accounts in the black. No longer. This year, the U.S. "current account" will probably be \$70 to \$80 billion in deficit.

Burns warns against alarmism. The impact of U.S. industrial decline and of "unfair" competition from overseas has been vastly exaggerated, he contends. There are more important factors. A postrecession recovery has lifted the U.S. economy much faster than those of our biggest trading partners, especially those in Western Europe. Moreover, the strong dollar makes American goods extra costly to buyers overseas, foreign merchandise cheaper at home: Between 1980 and 1984, the dollar appreciated by 50 percent against the currencies of 10 major world-trade nations. Third, the international debt crisis has forced many loan-burdened Third World nations to slash imports. Latin American orders for U.S. goods, for example, dropped by 50 percent between 1981 and 1983.

The circumstances behind today's trade imbalance are far from permanent, Burns asserts. And there are already signs that the international economy is beginning to correct itself—the dollar has declined somewhat, Latin America's import cuts have ceased. Nevertheless, he favors reduced U.S. interest rates to tide over heavily indebted Third World nations.

Burns is skeptical of other calls to action. Many U.S. industries (notably steel) that are clamoring for protectionist legislation, for example, are suffering not from "unfair" foreign competition but from worldwide overproduction of their product. And while massive U.S. government budget deficits contribute to the strong dollar and steep interest rates around the world, Burns believes that they are not the only cause.



Alarm over U.S. trade deficits flares periodically: This cartoon lamenting Americans' appetite for imported goods dates from 1978.

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West Europeans and others are bidding up the dollar and interest rates because they have little faith that their own governments will adopt economic policies that make investing at home as attractive as investing capital in the United States.

Why You Can't Afford a House

"Structuring the Future" by George Sternlieb and James W. Hughes, in *Society* (Mar.-Apr. 1984), Box A, Rutgers—The State University, New Brunswick, N.J. 08903.

By 1980, an American home-buying binge that had lasted nearly 50 years had come to an end. But Sternlieb and Hughes, both urban-planning specialists at Rutgers, warn of the dangers of letting the American dream of home ownership die.

The foundations for the 50-year spree were laid during the New Deal. The federal government, by offering insurance on both deposits and mortgages, fostered the growth of local savings-and-loan banks that issued low-interest home loans. Typical pre–New Deal home mortgages ran for five years and bore interest rates of up to 20 percent; after the 1930s, the normal term was 20 years, and interest was as low as five percent. The results were dramatic. In 1940, only 44 percent of all American households held title to their homes. In 1979, the home-ownership rate reached 65.4 percent.

But that may have been the peak. Home ownership has since declined slightly. The authors blame both persistent high interest rates and the Carter administration's decision to "deregulate" the banking industry. Once savings-and-loan institutions were allowed to offer competitive interest rates to depositors, they were forced to charge borrowers more as well. The result: Home buyers now compete with Fortune 500 corporations, among others, for a single pool of credit. Today's mortgage terms are not much better than those of the 1920s. "We have reinvented the housing equivalent of the Dark Ages," the authors contend.

Complicating matters is a new "postshelter mentality" that took root during the 1970s. Housing "became much more important as a form of investment, of forced savings (and tax savings), and as a refuge from inflation than as a refuge from the elements." Builders and contractors began catering to "up-scale" buyers looking for sound investments. Left in the lurch were first-time home buyers of limited means.

For the last 50 years, home ownership has served as the "glue" of the American system. It is the reward that middle-class Americans feel that they deserve for maintaining the "work and thrift habits of yore." To ensure long-term social harmony, Sternlieb and Hughes argue, Washington must take steps to make housing affordable again.

One step would be allowing first-time home buyers to use their tax-sheltered Individual Retirement Accounts, now largely untouchable until retirement, to finance home purchases. The authors also urge a federal attack on the building code "red tape" and local zoning regulations that make low-cost housing so hard to build.