
FOREIGN POLICY & DEFENSE

And the political strings attached to U.S. troops stationed in foreign countries can be hard to break. When President Jimmy Carter tried to withdraw army units from South Korea, political uproar forced him to cancel his decision.

Cohen believes that drastic reductions in U.S. forces overseas are neither necessary nor possible. Few U.S. allies have shown the will or ability to pick up the slack. But the Reagan administration's across-the-board increases in the defense budget (to \$227 billion in 1984) are not the answer either.

Painful choices await U.S. leaders, warns Cohen. They must decide, for example, whether the defense of Western Europe will remain the U.S. armed forces' chief overseas mission and whether to strive for unilateral capabilities (versus relying more heavily on allies for military support). In sum, they must decide what "foreign policy commitments [the United States] has the resources and will to make good on."

ECONOMICS, LABOR, & BUSINESS

Ending the Latin Debt Crisis

"On the Consequences of Muddling through the Debt Crisis" by Rudiger Dornbusch, in *The World Economy* (June 1984), Basil Blackwell Publisher Ltd, 108 Cowley Rd., Oxford OX4 1JF, United Kingdom.

In August 1982, Mexico declared itself unable to pay its foreign debts, and in quick succession, Brazil and several other Third World countries followed suit. Wall Street and Washington were shaken; the over-extended international banking system would be acutely threatened if any single debtor nation actually defaulted.

As Dornbusch, an MIT economist, notes, "muddling through" by all parties—stretched out repayments, emergency loans, and austerity rules laid down by the International Monetary Fund (IMF) as a condition for help to the debtors—saved the day. "Debt does not get paid," observed a senior Mexican official, "Debt gets rolled [over]."

Dornbusch sees serious difficulties ahead. He focuses on five Latin countries (Argentina, Brazil, Chile, Mexico, Venezuela) that, as of mid-1983, owed \$191.5 billion to overseas creditors, including \$83 billion to U.S. banks.

Washington's big-budget-deficit, high-interest-rate policies make it costlier for Latin debtors to borrow foreign money to pay interest on existing loans. Washington, unlike the governments of Western Europe, still does not insist that big banks maintain "appropriate loan-loss reserves" to cover the risks of foreign loans, and hence leaves the world banking system vulnerable to a domino effect default. Washington, anxious to protect some domestic industries, has frowned on subsidized Latin exports of steel, copper, textiles, shoes, et cetera to the

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United States, even though export revenues are the chief means the Latin countries have to meet their financial obligations.

Dornbusch also scolds the IMF for forcing the debtor nations to adopt austerity programs that, by slashing government spending and imports, look good on paper but diminish long-term prospects for economic growth.

"Muddling through" will not suffice during the next phase of the debt crisis, Dornbusch warns. U.S. officials should 1) lower barriers to Latin imports; 2) get U.S. banks to write off some Latin debt in return for agreements by South American leaders to devalue national currencies in order to promote exports. That would leave the Latin nations poorer "but with employment and hope."

Japanese Managers In America

"The Japanese Manager Meets the American Worker" in *Business Week* (Aug. 20, 1984), Box 421, Heightstown, N.J. 08520.

Last year, Japan's Bridgestone Corporation bought a failing Firestone Tire and Rubber Company factory in LaVergne, Tennessee, and, to nobody's surprise, put it on the road to profitability. What is surprising, reports *Business Week*, is that Bridgestone, like other Japanese companies in America, is doing things the old-fashioned way.

Bridgestone is just one of 31 Japanese manufacturers that established an American foothold in 1983. Japanese companies now own 479



American business executives tour a Japanese factory. Some Japanese management "secrets" were originally borrowed from the United States.