RESEARCH REPORTS

Reviews of new research by public agencies and private institutions

"Energy in Soviet Policy: A Study Prepared for the Use of the Joint Economic Committee, Congress of the United States."

Government Printing Office, Washington, D.C. 20402. 179 pp. $4.50.

The U.S. Central Intelligence Agency startled the world in 1977 by predicting that oil output in the Soviet Union, the world's largest producer, would soon peak; the communist world, said the agency, would become a major petroleum importer by 1985. The CIA has backed off slightly from its widely criticized forecast, but the impression persists that the Warsaw Pact nations may soon be competing with the West for OPEC oil—with rubles or arms. A group of specialists commissioned by Congress's Joint Economic Committee (JEC) disagrees.

The CIA contended that Soviet oil production would peak at 11 to 12 million barrels per day (mbd) in the early 1980s and fall to 10 to 11 mbd by 1985. (It is already 12.3 mbd.) Its projections described a "worst-case" scenario—assuming that overproduction would rapidly drain the gigantic western Siberian oil fields and that major additional finds were unlikely over the next five years.

The CIA put proven Soviet oil reserves at only 4.1 to 4.8 billion tons—roughly half the estimate of most other Western analysts. But as if to bear out the agency's claims, the Kremlin has indicated that it will hold oil and gas imports to its energy-poor Eastern European allies at 1980 levels through 1985.

In fact, there *is* a Soviet oil problem, say the JEC specialists, but it concerns the period 1985–90. By then, the Soviets could feel pinched if large new fields (which can take years to get into production) are not found soon.

Since the late 1970s, uncertainties over the oil and gas resources of remote Siberia and the Arctic coast have fueled an energy debate in the Kremlin, write the authors. President Brezhnev and the oil and gas industries maintain that the looming shortages can be avoided simply by boosting oil and gas production in western Siberia. But another faction (once led by the late Premier Aleksei Kosygin) stresses coal and nuclear power expansion.

While the growth in Soviet oil production has slowed—from 5.8 percent as late as 1976 to 2.9 percent in 1980—output continues to increase. The geologic structure underlying western Siberia suggests the presence of 10 billion more barrels of relatively accessible oil (not included in the CIA estimate). The Soviets have continued their heavy investment in western Siberian pipelines, apparently banking on Brezhnev's assumption.

The CIA has also undervalued Moscow's maturing gas industry, say the authors. The Soviets have announced proven reserves of 28 trillion cubic meters, more than one-third of the world's total. Since 1975, gas production has risen at least nine percent annually, and gas should increasingly replace oil in Soviet factories and power stations.

Such abundance is fortunate, because conserving energy in the Soviet Union will be difficult. Many of the biggest oil, gas, and coal deposits are located far from cities and towns; considerable energy is consumed just to transport the fuel to consumers.

The rising energy prices that have cut usage in the capitalist world play a minor role in the Soviet Union's "command economy." And so few Soviets own cars that greater automotive fuel efficiency or reduced driving—factors central to Western conservation efforts —would have a negligible impact.

The Soviet Union's net annual oil surplus is likely to shrink from 130 million tons to between 85 and 100 million tons by 1985—a far cry from the 55-million-ton *deficit* foreseen by the CIA. If oil output keeps expanding as planned, the Kremlin should meet most of its allies' energy requirements and feel no "pressing need . . . to invade the Middle East oil producers."

But the United States can hardly relax, assert the authors. If Soviet energy output does indeed gradually expand through the next decade, Soviet leaders will be tempted to increase their influence abroad by offering more energy supply deals to important neutral nations such as India and to U.S. allies such as West Germany, France, and Italy.

"Effects of Eliminating Public Service Employment."

Staff working paper, Congressional Budget Office, U.S. Congress, Washington, D.C. 20402. 36 pp.

As part of his federal budget-cutting campaign last spring, President Reagan asked Congress to eliminate by 1982 funding for public service employment (PSE) programs authorized by the Comprehensive Employment and Training Act (CETA). By May 1981, the White House had slashed PSE rolls from 307,000 to 131,000.

In this report, prepared before Congress passed Reagan's budget in June, Congressional Budget Office staffers argue that the White House could not possibly save the $1.2 billion it projects for 1981 by dropping the remaining PSE workers through the end of the year. Nor should the administration count on the $3.6 billion that it expects to save in 1982 from rescinding all outlays for the 310,000 PSE jobs originally planned for that year. Their study shows how American society's many "safety nets" can blunt economizing drives.

As many as half the laid-off or would-be PSE employees could draw on other federal assistance programs for cushioning. Between 20 and 50 percent could receive Unemployment Insurance averaging $1,600 in 1981 —costing Uncle Sam between $79 million and $177 million. (In 1982, however, the higher figure might turn into a net $100 million unemployment insurance saving, because the exodus of workers from PSE payrolls to unemployment lines will have ended.)

In addition, the loss of these PSE jobs is likely to increase federal welfare and food stamp spending by between $34 million and $54 million in 1981, and between $100 million and $157 million in 1982. (Factoring in the individuals who would have been expected to enter PSE programs for the first time in 1982 accounts for the increase.)

A decline in personal income among PSE jobholders will also cut federal tax revenues—by up to $127 million in 1981 and $371 million the following year. Foregone employee and employer Social Security contributions would represent 55 percent of this loss.

Though the administration expects to save $1.2 billion with its PSE cuts in 1981, these "secondary budget effects" may reduce *net* federal savings to only $869 million. And net savings in 1982 from discharging all 310,000 workers may fall below $3.1 billion—$500 million less than anticipated.

But the precise impact of the Reagan proposals won't be certain until the fate of welfare eligibility requirements is decided—and until the effectiveness of the administration's entire economic program in achieving noninflationary, job-creating growth becomes known.

"Challenges for U.S. National Security—Assessing the Balance: Defense Spending and Conventional Forces."

Carnegie Endowment for International Peace, 11 Dupont Circle N.W., Washington, D.C. 20036. 194 pp.
Authors: Leslie Gelb and the staff of the Carnegie Panel on U.S. Security and the Future of Arms Control

Comparing American and (estimated) Soviet defense budgets does not reveal much about relative fighting strengths, although Central Intelligence Agency figures on Soviet spending do suggest that Moscow will continue to gain on the United States in overall military capability.

Nor does "bean-counting"—simply comparing numbers of men, ships, aircraft, and weapons on each side—add up to an accurate picture of the worldwide military balance.

Reflecting the detailed views of a bipartisan 27-member Carnegie panel of scholars, generals, and others, the authors suggest a "more realistic" emphasis on politics, geography, doctrine, allies' contributions, support capability, technology, and, above all, "the purposes for which the forces were [established]."

The most serious political difficulty facing NATO in any crisis, for instance, is the need for 15 sovereign governments to act together quickly and decisively. Moscow too would have problems; in wartime, Soviet troops would probably have to be diverted to secure the "reliability" of its Warsaw Pact allies (including Poland, Hungary, Czechoslovakia), with reserves kept ready to deal with China.

Geography hurts any NATO defense of West Germany. U.S. reinforcements must come across the Atlantic and be funneled in through vulnerable ports and north-south communications lines close to likely West German battlefields. If France, a NATO "ally" but not a NATO member (since 1965), quickly joined in, NATO supply lines could go through France.

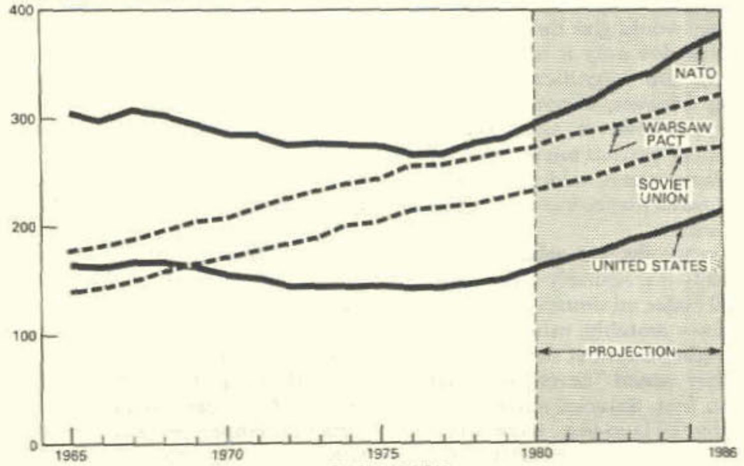
Despite the Soviets' growing edge in ground firepower, the "more serious problem" for NATO is not the oft-cited threat of a Soviet "standing-start" surprise attack but a Warsaw Pact assault after a seven-to-14-day mobilization period.

Some analysts estimate, for example, that Moscow could build up a 2.4-to-one ratio in combat troops in Germany after 10 days' mobilization, versus one-to-one in a "standing-start." French participation would be more critical after such preparation.

Whereas decisions to respond to an actual Soviet attack would be virtually automatic, NATO politicians might tend to put off difficult mobilization choices during a build-up when Moscow's intentions were ambiguous; some Western civilian leaders might even hope that abstaining from NATO mobilization would defuse the crisis.

Looking ahead, NATO faces several "potentially divisive" decisions regarding both its conventional forces and its so-called theater nuclear forces

COMPARISON OF NATO AND WARSAW PACT TOTAL DEFENSE COSTS



U.S. Department of Defense.

(notably U.S. cruise missiles and the ground-based Pershing II missiles that can reach Russia). All seem to involve politics as much as anything else. Among them, NATO must decide whether to continue with its plans (announced in 1979) to employ theater nuclear weapons to offset Soviet missiles in Europe, despite Soviet warnings and growing political opposition in Western Europe.

There are costs in *not* deploying the NATO missiles. Moscow might perceive that many Western European leaders raised the problem of apparent Soviet advantage in missiles in 1979 and then "in the end were not prepared to do anything about it."

"The Role of Seniority at U.S. Work Places: A Report on Some New Evidence."

National Bureau of Economic Research, 1050 Massachusetts Ave., Cambridge, Mass. 02138. 177 pp. (Working Paper 618)
Authors: James L. Medoff and Katharine G. Abraham

What determines job security and pay in America today? Performance? Union membership? A big factor is sheer staying power—seniority. So find Medoff and Abraham, economists at Harvard and MIT, respectively, after surveying managers at 561 U.S. nonagricultural, nonconstruction companies.

Seniority seems to matter most in those businesses where employees are unionized. Sixty-eight percent of managers interviewed from these environs said that they would *never* lay off a senior employee before a less-experienced one. Another 28 percent said that they would give the pink slip to a senior worker only if his junior handled the job "significantly" better. Among managers of nonunion, hourly employees, however, allegiances were weaker: 29 percent answered "never" and 50 percent would consider individual performance but with a bias toward seniors.

Seniority shelters salaried employees least—particularly those who do not fall under minimum-pay and overtime laws (notably, other managers). Only eight percent of their bosses said that they would "never" terminate a veteran first. Salaried employees *protected* by the laws (e.g., secretaries) accrue just a bit more security with the years; 13 percent of their supervisors replied "never."

But most employers of salaried workers—56 percent who supervise protected employees, 63 percent of the others—still said that they would give a junior a break in termination decisions only if he significantly outperformed his elders.

Seniority influences promotion decisions to a far lesser degree, Medoff and Abraham observe. Its impact seems "automatic" only among a minority of unionized hourly-wage earners. Seventeen percent of the individuals who supervise this category would "never" advance a junior worker "instead of a more senior employee who wanted the job."

This iron rule was acceptable to far fewer managers of other groups—four percent in nonunion hourly shops, three percent in protected salary workplaces, and two percent in unprotected salary offices.

In all, the authors contend, 73 percent of American nonfarm, nonconstruction employees work in settings where senior employees enjoy "substantially" greater job security than their junior counterparts. Half work for firms that similarly favor veteran employees in promotions. They benefit from on-the-job tenure whether their real value to an employer grows or not.

"Rescheduling Developing Country Debts, 1956–1980: Lessons and Recommendations."

Overseas Development Council, 1717 Massachusetts Ave. N.W., Washington, D.C. 20036. 100 pp.
Author: Chandra Hardy

Throughout the 1970s, the soaring debts of Third World countries to Western governments and commercial banks touched off periodic credit crises. Hardy, a World Bank economist, contends that today's makeshift arrangements to manage debt problems are outmoded.

The developing countries have been borrowing to stay afloat and to finance modest growth in a period of rising oil costs, stagnating foreign aid, and shrinking markets in the recession-ridden West. From 1970 to 1980, the total Third World debt (of 94 nations) quadrupled to $400 billion.

The developing countries' borrowing has grown faster than their revenues from exports and domestic economic growth combined. Moreover, loans from private Western banks have been growing by over 25 percent annually and now comprise more than half the total Third World debt. The banks' terms, tougher than most foreign aid loans, have helped shrink the average repayment schedule from 17.5 years in 1972 to 14.5 years in 1979.

Consequently, the number of countries in arrears rose from three in 1974 to 22 in 1980, and the value of overdue payments shot up from $500 million to $5.5 billion. Half of the total outstanding Third World debt is due by 1985, but prospects for substantially improved economic performances needed to pay these bills are dim.

Poor economic management has aggravated the debt problems of some Third World countries. Zaire's President Mobutu Sésé Seko sank too much capital into dead-end industrial "prestige" projects while neglecting his backward nation's farmers. When world prices for Zaire's copper began to plummet in 1971, total foreign debt soared—from $800 million in 1972 to $3.5 billion in 1977—partly to cover agricultural imports.

But lender nations are also at fault. The rules of the "Paris Club" (an unofficial group of Western creditor nations) prohibit discussing a new schedule for payment until outright bankruptcy is imminent.

Hardy also contends that the Paris Club members (including the United States) have withheld debt relief to financially strapped countries for political reasons. During the early 1960s, for example, pro-communist President Sukarno of Indonesia repeatedly sought relief from Western creditor nations in vain. Four years after he was overthrown in 1966 by the pro-Western General Suharto, Paris Club members rescheduled all of Indonesia's $2.1 billion debt at 30 years with no interest.

Meanwhile, private banks have been guilty of excessive, erratic lending, she writes. Though skyrocketing oil prices and slumping exports plunged Turkey deeply into the red after 1974 with no prospects for a quick improvement, some 250 Western banks let Ankara's outstanding private debt balloon to between $8 and $12 billion. [During this period, Western banks were hard-pressed to find borrowers for the huge increases in OPEC countries' deposits following the sharp 1973–74 oil price hikes.] Then, in 1978, they rescheduled payments on unrealistically harsh terms, virtually destroying Turkey's chances for early recovery.

But most debt reschedulings, Hardy writes, only ward off financial chaos for a year or two—usually until the International Monetary Fund is asked by the debtor to step in and provide aid in exchange for the adoption of stringent economic austerity programs. This system wastes considerable time for commercial banks and Western governments; it has also cost them roughly $2 billion in payments that had to be completely written off between 1956 and 1980.

The root cause of the debt problem is the scarcity of low-interest long-term funding for development. (During the 19th century, the United States and other modern industrial powers financed factories and transportation networks with 50-year bonds.) As long as Third World countries have to rely heavily on private banks, she argues, recurring default scares will be an inevitable by-product of today's mercurial world economy.