Perspectives
on current developments

HUD Relaxes Its Property Code

In mid-1978, the Department of Housing and Urban Development began to revise its minimum property standards for single-family homes. In mid-1982, it finally issued the revised standards. At the same time, HUD announced that it eventually hopes to replace the federal standards entirely and rely on local building codes instead. Both developments represent steps toward the Reagan administration's goal of bringing homeownership within the reach of more families by reducing the regulatory burdens borne by home builders. Given the experience of the last four years, however, the prospects of achieving this laudable goal are not very encouraging.

Simplifying the Federal Standards. The minimum property standards are in effect a building code for new homes financed with federally insured mortgages. Their purpose is partly to protect home buyers from unsafe homes, but more importantly to protect the federal government from financial loss by ensuring that the home can be resold during the twenty-to-thirty-year life of the mortgage for at least as much as the outstanding principal balance on the mortgage. Thus the federal rules have included not just health and safety standards but also "marketability" and "liveability" standards, requiring, for example, that homes have a coat closet near the front door, a bathtub as well as a shower, and "acceptable" grass and ground cover.

There appears to be general agreement now that the standards filled a void back in the 1930s, when they were first introduced. Many homes were built in places without building codes, and what codes there were were home-grown and frequently badly enforced. That has changed in the past two decades. Most communities now have building codes, often based on model codes drawn up by regional associations of building officials and inspectors. Although these model codes were themselves influenced by the federal standards, their effect has been to make those standards increasingly redundant.

In 1977 a HUD task force recommended removing some of the more costly technical and design requirements in the standards in order, for example, to admit lower-priced "starter" homes into the Federal Housing Administration insurance program. Agency officials accepted these recommendations and also decided to do away with at least some of the marketability and liveability rules. But they turned the task of revision over to HUD's minimum property standards office—a bureau whose job had always been to establish standards, not eliminate them, and whose career staffers were by no means persuaded that the changes were desirable. It took a year to produce a modest first draft of revisions, and even that draft went too far for HUD's consumer protection and community planning offices, which immediately launched a campaign of opposition. Another version was then prepared, but it was far too weak to satisfy the deregulators among the department's policy development and housing cost specialists.

After a deadlock that went on for a year, HUD secretary Moon Landrieu sat down in the summer of 1980 with a list of proposed changes and decided which ones to make. That seemed to settle the matter. The department issued preliminary changes in September 1980, and it appeared that the revision process would soon be complete—more than two years after it had begun.

That, too, proved premature. HUD failed to publish the final rule before President Reagan took office, and his new Task Force on Regulatory Relief decided to review the changes to see if it could achieve further deregulation. The same bureaucracy that had taken one year to bring forth the first version, and a second year to revise it, now took a third year to re-

consider. After prodding from the task force, HUD came up with a new version in early 1982, with only trivial differences from its 1980 version. It also wrote a rationale for the revision so full of praise for the original mission of the standards that it almost forgot to mention that the aim of the revision was to trim them back.

After the task force pressed for further concessions, HUD ultimately agreed to remove most but not all of the marketability and liveability standards. In August 1982 the rule was finally issued, eighteen months after President Reagan took office with the goal of deregulating home building and four years after the official revision process began.

The delays were not occasioned by public concern over the proposal. No major consumer organization bothered to comment, and virtually all the formal comments favored deregulation. The strongest objections came from the AFL-CIO, which, however, contented itself with filing critical comments and did not lobby against the changes. Instead, the only serious opposition came from within HUD—but it was serious enough to frustrate the policy of two administrations for four years.

The startling thing is that the substantive impact of the changes, on either costs or housing quality, is generally expected to be almost nil. An Urban Institute study of three metropolitan areas found that the minimum property standards have typically been less stringent than local building codes and that most home buyers want, and purchase, much better and more "livable" houses than required by the federal standards, past or present.

The revision should bring some scattered benefits, however, depending on locality. The Urban Institute study found possible savings of 5 to 8 percent in some Denver suburbs, for example. And a number of builders now hope to create a market for smaller "starter" homes. More generally, builders should find it easier to prove their compliance with the new standard. But even these benefits have applied until recently only to a small share of new homes. Fewer than 10 percent of the new homes built during the 1970s were insured by FHA; another 10 percent were required by other government lenders such as the Veterans Administration to meet the FHA standards. In the last few months FHA activity has risen sharply as housing construction has begun to recover, so the standards may be somewhat more important now. But in any case they are not mandatory; if builders find them too onerous, they can always build for the "conventional" market and offer their homes for sale without FHA insurance, as a great many have done in recent years.

Substituting Local Building Codes. At the same time that HUD issued the revisions, it announced plans for a more significant step: waiving the minimum property standards entirely in places with local building codes. This is in line with the recommendations of a number of independent organizations. The key issue in any such change is whether the local code would have to be comparable to one of the model codes to be acceptable for FHA insurance purposes, or whether the code as written and adopted by the locality will suffice. On this, opinion is divided. The National Institute of Building Sciences favors a comparability requirement, for example, while the Presidential Task Force on Regulatory Relief considers it unnecessary.

Relying on local codes might appear to be a backward step, since they have traditionally been decried as out-of-date and needlessly diverse, arbitrarily forcing builders to use different techniques and materials from one town to the next. The best-known example of these problems is the great resistance of local code makers to permitting plastic instead of cast-iron pipes in plumbing. Local political pressure, particularly from cast-iron pipe producers and construction unions, is often cited as the major reason.

Requiring local codes to be comparable to a model code for purposes of FHA insurance would encourage cities to update their codes. But the model codes themselves do not automatically change every time a cost-saving innovation comes along. Many proposed changes are debated extensively within the standard-setting organizations, and trade groups often bring considerable pressure to bear, since the stakes are substantial. Analyst Francis Ventre concluded in a 1971 article: "More often than not, the politics of national trade associations are played just as heavily at the model code meeting as at city hall." (This was certainly true of the plastic pipe issue.)

The empirical evidence that building codes significantly raise construction costs turns out to be scanty. Statistical estimates have ranged

from 1½ to 10 percent of costs, and the most recent and most systematic studies have fallen much closer to the low end of this range. And nearly all studies of the housing market have failed to find evidence that there are big economies of scale in home building. Uniformity in local codes appears to promise less saving than has been widely anticipated.

Nor would relying on local codes be likely to endanger either the FHA insurance fund or the health and safety of home buyers. The most common complaint now is that local codes set unnecessarily rigid standards, not that they sanction houses that are jerry-built or unsafe. (This is a reversal of the situation prevailing at the time the standards were adopted.) HUD could find out about any remaining inadequate codes by announcing that it intends to rely on local codes and then asking for comments, so as to give knowledgeable persons and organizations a chance to offer examples of inadequate local codes.

If comparability were required, a typical city would first have to demonstrate that its local code was comparable to one of the model codes, and then repeat this demonstration each time either its own code were "weakened" or the model code "strengthened," which would probably be at least every two or three years. (Few cities adopt a model code without changing it to meet local conditions and preferences.) The cost of dealing with HUD would thus be shifted from builders to local governments and, ultimately, from home buyers to local taxpayers. If the local code were not deemed comparable, the builder would still, as now, have to meet two sets of requirements, local and federal (and the federal might even be the minimum property standards, as before).

In effect, the HUD office that sets minimum property standards would be turned into an office that enforces code compliance. Indeed, it would have both sorts of duties, since the federal standards might be retained for areas without codes, and since in any case HUD intends to keep its minimum standards for apartments (as opposed to houses). On the other hand, if HUD agreed to follow local codes wherever they exist and relied on a model code elsewhere, there would be no need even for a federal agency to administer the requirements—which might ensure that there would be strong internal opposition to such a step.

A comparability requirement could even turn out to be a step in the direction of a national building code. This is admittedly a remote prospect at present, but some analysts have regarded the minimum property standards as a potential precursor to an eventual national building code. Relying on local codes would make this much less likely; requiring comparability with model codes would make it slightly more so. For an administration pledged both to federalism and deregulation, a national code would be the worst of both worlds.

If HUD did become a federal building code agency, it might have political incentives to minimize risk at almost any cost, the way drug regulators have an incentive to weigh new side effects much more heavily than new cures. Under the present system, a new product can get a market test if it is adopted in any of the 10,000 jurisdictions with building codes; even if none adopt it, it can still be tested by any builder operating in a jurisdiction without a code. Such market tests would probably become impossible under a national code. Moreover, HUD would lack even the moderating influence of competition between nearby localities that now restrains local code makers. Given this prospective hazard, and in light of the drawn-out process HUD just went through when so much less was at stake, the prospects for reform cannot be viewed as encouraging.

UNCTAD Takes on the Brain Drain

For some years, less developed countries have been complaining that their most talented and ambitious citizens are fleeing to countries of greater opportunity, usually Western democracies. In 1977, Crown Prince Hassam bin Talal of Jordan demanded that the West compensate backward countries for these losses of "human capital," and other third world leaders soon joined in. Before anyone can propose a scheme of compensation, however, some method is needed to measure the statistical proportions of the "brain drain." The United Nations General Assembly has repeatedly asked its UN Conference on Trade and Development to study this problem, and on May 27 UNCTAD published a feasibility study on the subject, written with help from two other UN agencies, the In-

ternational Labor Office and the UN Statistical Office. In September a group of experts representing various nations met in Geneva under UNCTAD auspices to consider the new report.

The report begins with a complaint about the sadly inadequate nature of the data base. Outside the industrialized world few reliable statistics are available on such questions as the education and occupation of migrants, and even countries like the United States and Canada keep data only on immigrants, not emigrants. The report recommends that national governments beef up their efforts to collect information on migrants, and also consider establishing "a national register of scientific and technical persons . . . updating that register continuously to take account of the inflow and outflow of such persons." (India already has just such a register.) "The registers would be extremely useful," the report continues, "not only for measuring human resource flows pertaining to specific professions, but also for national manpower and education planning, including science and technology development"—an example of how UN agencies encourage the spread of intrusive regulation at the national level.

In large part the report is devoted to the knotty issue of how to assign value to "human capital"—in plain terms, how to put a price tag on scientists and scholars so that the third world can know how much to charge. There are three major theoretical ways to evaluate this human capital, corresponding to the well-known economic concepts of historic cost, opportunity cost, and discounted present value. "Historic cost" is the value of the person's education; "opportunity cost" is the cost to the emigrant's old or new country of duplicating his skills in the form of some other citizen; and "discounted present value" is the current worth of his future expected earnings. In practice, the UNCTAD study and several earlier studies on which it draws seem to use all three theories to some extent.

Most analysts that use the historical cost approach, the report says, tote up the full "social costs" of educating a student in terms of the prices prevailing in his country of destination, without considering his source of finance. Thus a Pakistani engineer emigrating to Britain would carry the same price tag whether he had studied at Oxford or the leading Pakistani university, and whether his tuition was paid by his own family, by the Pakistani government, or by Oxford or the British government through scholarships—however un-"historic" this may seem.

Ignoring sources of finance, of course, introduces a bias that works to the advantage of the sending countries. Admittedly it is not easy to keep track of scholarships for statistical purposes. But what about students who pay for their own education? The usual rule is that a country has no right to recover funds that its subjects lawfully send abroad when, for example, they buy a villa in Beverly Hills. Unless third world countries mean to reverse this rule, and assert an absolute right to recoup all escaped capital, they are implicitly asserting that they suffer peculiar damage when one of their subjects buys an education instead of a house abroad.

Also included among the "social costs" are many costs, such as university subsidies, that are paid by the country to which the student migrates, along with the wages forgone by the student during his schooling—again in terms of wage rates in the country of destination. Thus Benin would get to count the wages its students could have earned at California wage rates had they not been studying at Berkeley—although, of course, they would never have gotten into the United States if their purpose had been to accept jobs. If all these "social costs" were counted, Western countries would be asked to pay tens of thousands of dollars for every high-school graduate from the third world who entered a Western university with an eye to seeking eventual citizenship.

Indeed, the level of compensation would depend on an emigrant's actions after leaving his home country. Two high school graduates, identical at the moment of graduation, would bring in widely different amounts depending on how much education they acquired after leaving home but before changing citizenship. The "exit tax" would thus be a tax not so much on "sunk" educational investment as on individual talent and motivation—which would be considered as one of the "national resources" not to be alienated without compensation.

Historic cost is closely related to one version of "opportunity cost": the expense the emigrant's home country would incur in duplicating his skills. The other version of "oppor-

tunity cost"—the expense the *host* country would incur in duplicating his skills using its own citizens and universities—is implicit in the notion that the education should be assessed at Oxford rates even if it took place at a Pakistani school. Both this second "opportunity cost" method and the "discounted present value" method lead to much higher estimates of human capital value than does the "historic cost" method. The reason is that they measure the gains from emigrating to host countries, and those gains are likely to be much greater than the losses to home countries. For example, a skilled person might have been underemployed or unemployed in his home country (how many astrophysicists can Madagascar employ?).

In fact, as the UNCTAD report notes almost incidentally, losses of skilled personnel need not bring about losses in national welfare at all. One reason is that skilled emigrés send home remittances (which actually account for most of the foreign exchange earnings of some less developed countries). Another is that emigrés represent a claim on consumer products in their host countries, while at the same time sparing their home country the trouble of producing or importing those products.

Even the present discounted value method, however, might not lead to high enough compensation, the UNCTAD study says. For one thing, the act of emigrating creates externalities: adding a skilled person makes other skilled persons still more productive. (Of course, the externalities also work in reverse: the migrant becomes more productive precisely because he migrates into a more auspicious environment. Western countries might claim, if they wished, that this effect, in one form or another, accounts for the whole increment in earnings that migrants receive.)

The true value of an emigrant to his new country might also be higher than his earnings would show, the report adds, because his labor might be exploited in his new situation. One can only imagine the possibilities for inflated claims on this score, especially given the pronounced tendency for people to migrate in droves from non-"exploitative" to "exploitative" (by UN standards) economic systems.

The study then comes up with some hard numbers on four "illustrative examples." Under the secretariat's assumptions, a forty-five-year-old physician emigrating from India to the United States would be reckoned as a benefit to the United States of $362,087 (discounted future earnings) or $76,196 (historical cost of education). A thirty-five-year-old scientist emigrating from Britain to the United States would weigh in at $174,995 and $60,410 respectively by the two methods.

A number of earlier studies have attempted to assign an aggregate monetary value to all flows of skilled migrants worldwide. Even under the sort of assumptions described here, these studies generally found that the value of the flow of migrants to major Western countries was less than the flow of foreign aid in the opposite direction. A 1974 Library of Congress study of emigration in 1971 concluded that the United States saved $836 million in education costs, while developing countries lost $326 million by the same measure. A Canadian study similarly found that human capital flows were smaller than aid, but that, "perhaps most appropriately as a matter for comparison" (to quote UNCTAD), they were larger than the amount of aid specifically earmarked for scholarships and training programs—which suggests another possible rationale for boosting aid totals. The new UNCTAD report adds reassuringly that "official development aid statistics rarely indicate a pure flow in the way in which migration statistics do."

The gathering in Geneva to discuss the report was something of a shouting match: although the Western countries attacked the report's methodology, everyone else declared that it showed the need for strong UN action. The North-South split, by the way, is ironic: the "brain drain" arose as a British complaint back in the 1950s and 1960s, when scientists and engineers left the United Kingdom in great numbers for the United States, Canada, and Australia. Since then, Britain has turned from a "victim" to a "perpetrator" of cerebral siphoning.

The third world delegates generally demanded only fiscal compensation, rather than an actual end to the brain drain. But the Soviet bloc representative, an East German, argued that it was unfair for Western countries to encourage the brain drain by giving such inducements as scholarships. He also said that, in his view, certain countries were benefiting far more from the brain drain than they were paying out in aid, and that the socialist countries, for

their part, "did not benefit from the brain drain in any way," to quote the minutes of the meeting. The Western representative, a Canadian, responded that "it was indeed a very simple matter in the [Soviet bloc] countries, first, because there were no migratory flows and, second, because they had a very different concept of movements across borders, which were strictly controlled unlike the practice in most Western countries." (His actual statement mentioned the sort of things, like "walls," "barbed wire," and "minefields," that tend to get excised in UN minutes as too undiplomatic.)

The meeting broke up with no consensus and no agreed-upon course for future action. That will be the task of UNCTAD's Committee on Transfer of Technology, which will consider the experts' report in December and could at that time recommend, for example, that the UNCTAD secretariat draw up a blueprint of an actual scheme to start taxing the West. To date, there is no clue on how even the most basic compensation scheme would work: whether developed countries would pay by the head or in bulk for emigrants, for example, and whether the taxes would be paid to the less developed countries directly or to some UN body. If and when a blueprint is placed on the table, Western countries will have a better idea of what sort of battles lie ahead.

Charity War in Washington

Charity, more than faith or even hope, used to be thought of as a subject inherently free from controversy. That notion will have to change now that the federal government has found itself in the crossfire of a veritable charity war.

This eleemosynary brawl pits against each other two groups of politically well-connected charities. The first consists of three subgroups: the United Way, the traditional umbrella organization for such health and social service organizations as the Girl and Boy Scouts and the American Cancer Society; a group of major medical charities known collectively as the "National Health Agencies"; and such overseas aid groups as the USO and CARE. The second group includes a variety of less easily classified, mostly new organizations. Some are health and social service groups that for one reason or another prefer not to affiliate with the older groups. Others are outfits like the National Black United Fund whose aim is to serve a particular subgroup of the population. Still others are advocacy groups whose purpose is to pursue landmark lawsuits, agitate for legislation, or do ideological combat in the arena of public opinion. These newer groups—the last-named, of course, being "new" only in their self-designation as charitable—want to share the traditional groups' right to raise funds from federal employees on the job in the annual Combined Federal Campaign. As of now, after several rounds, they seem to be winning—but their victory is having some unintended consequences.

President Eisenhower established the Combined Federal Campaign in 1956, and in 1961 President Kennedy signed an executive order transferring its administration to the Civil Service Commission. The commission's original regulations implementing the order made it virtually impossible for a social service agency to join the CFC unless it was affiliated with one of the three traditional groupings of charities. Participating charities also had to provide "direct services to persons in the fields of health and welfare services," instead of, for example, filing class action suits on their behalf. One reason the traditional groupings were shown this favor was that their member organizations pursued causes that were universally considered "good," and that, taken as a whole, seemed to benefit practically everyone. Moreover, keeping the proliferation of charities to a minimum was thought to save on fund-raising expenses (see Readings, page 50). Both considerations were important because the federal government in effect subsidizes the CFC in numerous ways: letting federal workers carry on CFC business on paid time, doing free accounting and other paperwork for payroll deductions, and so on.

By the time twenty years had passed, all this had changed. Black groups were criticizing the United Way and the major medical charities as unresponsive to minority concerns. Activist groups like the National Committee for Responsive Philanthropy and the Center for Science in the Public Interest were attacking them for their reluctance to fund "social change." Soon the critics were going to court to challenge the CFC ground rules, and winning. In 1980 a district court in Washington struck down two provisions that were keeping the National Black

In Brief–

No More Souped-Up Imports. Congress is moving to close off an exception that has allowed some American drivers to obtain fast sports cars, racy sedans, and other vehicles that normally are prohibited by federal law. For years, a provision of the Clean Air Act has allowed tourists, military personnel, and others to bring back to this country cars that they have bought overseas, even when the cars do not meet U.S. emissions standards. Some drivers have been taking advantage of this provision to bring in the sort of jazzy, high-performance vehicles that were often seen on the streets here before the advent of federal auto regulation and that cannot now be legally imported through ordinary commercial channels. (There is a requirement that all but the oldest cars be "converted" to U.S. emissions standards, but some drivers have been "deconverting" them right back again when they get home.)

According to a Bureau of National Affairs report, Congress was pressed vigorously on the issue by none other than U.S. imported car dealers. This public-spirited and environmentally minded group of business people pointed out, in an appeal for congressional relief, that the "gray-market" imports are not subject to the federal recall and warranty provisions that apply to official imports, a state of affairs that is unfair to consumers. The car dealers also complained that owners expected them to service cars not built to U.S. specifications and that they found it hard to say no for fear of losing the owners' goodwill. Evidently dealers do not lose this goodwill when they collectively prevent the consumers from getting the cars in the first place.

A Chip and a Hard Place. Washington officials recently warned their Tokyo counterparts that Japanese semiconductor firms were in danger of running into a dumping complaint before the International Trade Commission. The reason, it seemed, was that the firms were selling 64K RAM (random access memory) chips in the United States below the market price in Japan. So the Japanese firms duly raised their chip prices whereupon, it is reliably reported, the Justice Department's Antitrust Division began to investigate them for alleged price fixing.

Show-Me Showdown for Legislative Veto. On November 2 Missouri voters rejected a proposed constitutional amendment providing for a two-house legislative veto of regulations issued by state agencies. Under the amendment's terms, any agency regulation would have been invalidated if both houses of the state legislature had passed resolutions of disapproval; nor could a "regulation having the same general effect be thereafter promulgated unless legislative authority to promulgate such rules [were] delegated by future statutes." Furthermore, all policies of state agencies would have had to be embodied in regulations: "No member of the public shall be denied a legal right or privilege by any state agency order, opinion, statement of policy, or staff manual or instruction unless the same was duly promulgated as a regulation in accordance with applicable law." (Adjudicatory decisions, however, would not be covered by this clause.) The unofficial vote on the referendum was 495,620 in favor and 787,406 opposed.

Not Such a Chilly Reception. Three Harvard researchers say that natural gas deregulation, which has been strenuously opposed by many New Englanders, could actually help the Northeast. Sunbelt industries use far more natural gas than their Frostbelt counterparts, so continuing to hold its price artificially low helps the former outcompete the latter, according to Robert Leone and two colleagues at the Harvard Energy and Environmental Policy Center. What is more, Northeasterners own 20 percent of the stock of the gas-producing companies through their pension funds, insurance policies, and other investments. Finally, producers would use some of the added revenue they earned under price deregulation to buy, for example, more steel pipe from Pennsylvania and more high-tech gear from Massachusetts, which would benefit Northeastern firms and workers—though not necessarily the same ones that paid the higher prices.

United Fund out of the campaign: one required that a charity provide service nationwide and the other required that it hold fund-raising costs below 25 percent. (This decision was later reversed on appeal.) In January 1981 the same court invalidated a rule that had excluded the Puerto Rican and the NAACP legal defense funds because they did not provide "direct services." According to the court, the "direct services" rule did not "have the precision necessary to comport with constitutional requirements." (The court did, however, turn down the plaintiffs' request for a share of the previous year's campaign receipts.) This decision was not appealed, and by the 1981 campaign the CFC had admitted many nontraditional agencies, including the plaintiffs in the earlier suits and a number of feminist organizations.

But although the courts had expressed displeasure with several of the earlier guidelines, they had never ruled explicitly that the newer applicants must be admitted. Thus in October 1981 the Office of Personnel Management, successor to the old Civil Service Commission, began a series of efforts to come up with a distinction by which it could justify returning to the old system. Its first step was to propose that President Reagan revise the Kennedy ex-

ecutive order to answer the court's objections. The proposed revision would have made the "direct services" provision more precise, carefully enumerating the direct services that CFC charities would be allowed to provide, limiting the charities to programs aiding specific groups "such as children and youth, the aged, the ill and infirm, and the physically handicapped," and excluding all legal or political advocacy groups. This proposed order was leaked to the press, however. Soon an outcry arose from the excluded groups and other critics, which led the President to reject the proposal in March 1982 and issue a new revision of the executive order with broad language assuring the advocacy groups a place in the campaign.

But the battle was not over. Two months later OPM issued preliminary regulations intended to implement that Reagan executive order. These rules admitted charities that specialized in, for example, "delivery of legal services to the poor and indigent, and defense of human and civil rights secured by law." But they also preserved a rule that required participating charities to qualify first on a national and then on a local level before they could get funds from a local CFC campaign. To qualify nationally, a charity had to show that it provided "a service in all or most of the states" and had "contributor support from all or most parts of the nation"—a weaker provision than in the old rules, but one that still excluded many groups that were new or were oriented toward minorities. To qualify for a local campaign, as before, a charity had to prove further that it had a "direct and substantial presence" in the local community—which was impossible for many advocacy groups whose major "direct and substantial presence" was in courtrooms in Washington and a few other cities.

The outcry resumed, and in the final regulations issued in July OPM loosened the stringent requirement on national scope from support in "all or most of the states" to support in "many" states, which it said would mean about a dozen. This sufficed to readmit, for example, the National Black United Fund. At the same time, the agency added further details on the "concrete" test for local eligibility. (In practice, OPM eventually watered down this rule to the vanishing point; it now requires merely that a charity maintain an 800 telephone number to answer local contributors' questions.)

The results have dissatisfied most parties. Since legal defense funds on both sides of the political fence were admitted, the CFC charity dollars will now enable even more tag-teams of ideologically motivated attorneys to fight each other. Planned Parenthood, which has been in the campaign since 1968, and the newly admitted National Right to Life Educational Foundation will both receive money with which to slug it out. More and more money that would once have gone to medical research or children's services will instead be politicized. Indeed, the American Federation of Government Employees has urged Transportation Department employees to earmark their funds for Ralph Nader's Center for Auto Safety—a participating CFC "charity"—explaining, "You'll be helping a group that's working to support your work and help save your job."

Encouraging givers to earmark their donations is one way to avoid the unfairness of giving general charity funds to causes that some donors oppose—and to ensure that if donors cancel each other out, it is at least by design. In the past, "undesignated" funds have been divided up under a federal formula that provided the great bulk of the funds to United Way. OPM has now launched an effort to urge donors to designate their contributions. (A test effort in San Francisco last year increased the share of earmarked funds from 40 to 70 percent.)

More controversially, OPM has transferred control of local campaigns from autonomous committees composed of the local charities to local federal officials. These officials would then pick one of the local charities—known as the "principal combined-fund organization"—to act as their administrative arm and distribute all undesignated contributions. Virtually all of these local agents will be United Way groups, and some of the other charities fear that where federal managers are less than diligent the local United Ways will gain de facto control of local promotion activities and eligibility standards. They also say that the United Way will have an incentive to promote undesignated contributions, which could frustrate the effort to encourage earmarking.

National United Way officials, for their part, insist their local affiliates will distribute the federal funds this year in the same proportions as before—which is not much comfort to the other groups. Meanwhile, OPM is hoping

the problem will become less serious as undesignated contributions decline and the importance of the general fund diminishes.

The High Cost of "Local Content"

In 1975, Congress added a clause to the Clean Air Act that, as Paul Portney demonstrates elsewhere in this issue, preserves the jobs of Eastern coal miners at an expense that is greater than what the jobs pay to the miners. That this extravagant eagerness to save jobs is becoming a settled congressional policy, instead of merely a fluke in one statute, is shown by two recent developments. First, congressional committees revamping the Clean Air Act easily turned back attempts to eliminate the offending "percentage reduction requirement." Second, and at the same time, members of Congress are displaying a great and growing interest in extending the principle of job protection to hundreds of thousands of auto workers.

That would be the effect of "local content" legislation like H.R. 5133, sponsored by Representative Richard Ottinger (Democrat, New York), which was favorably reported by the House Energy and Commerce Committee on September 20, and has more than 220 cosponsors. A similar bill in the Senate is S. 2300, sponsored by Senator Wendell Ford (Democrat, Kentucky) and seventeen cosponsors.

H.R. 5133 would prohibit both foreign and domestic automakers from selling vehicles in the United States that contained less than a specified average share of American value added—ranging up to 90 percent, the exact percentage depending on the annual number of vehicles they sold here. For example, a firm that sold more than 100,000 cars a year would have to include at least 10 percent local content, starting in 1985. (In 1981, seven foreign firms exceeded the 100,000-car threshold: Toyota, Nissan, Honda, Mazda, Volkswagen, Subaru, and Mitsubishi.) Required local content would rise with sales on a sliding schedule. Only if an automaker used at least 90 percent domestic content would it be allowed to sell cars in unlimited numbers.

The idea, of course, is to limit imports not only of autos, which might be dealt with by across-the-board import quotas, but also auto parts, and thus prevent automakers from using U.S. plants to assemble components made overseas. Not incidentally, the tactic allows proponents of import restrictions to expand their coalition beyond the United Auto Workers union to include the companies that manufacture auto parts. The latter, indeed, may have been hit harder by imports than the auto assemblers; while employment in auto production has fallen by about 300,000 or 38 percent, from December 1978 to April 1982, the number of jobs lost in supplier industries may be more than twice as great, bringing the total to a million or more.

According to the Congressional Budget Office, the proposal now before Congress would restore only a small share of the million jobs lost—about 100,000 in all, 30,000 among automakers and 70,000 in supplier industries. Moreover, according to students of international trade theory, for every job created in the automobile industry, another job (and perhaps more than one) would be destroyed in some other industry. Under the present system of flexible exchange rates, a drop in auto imports should by depriving foreigners of dollars cause the price of the dollar to rise, reducing demand for U.S. exports and eliminating jobs in exporting industries. It is also possible that our trading partners might retaliate in kind—which according to CBO estimates would cost 173,000 jobs in other industries, more than swamping the 100,000 jobs in the auto and related industries. (The American Farm Bureau Federation, the Aerospace Industries Association, and the U.S. Chamber of Commerce oppose the bill.)

There is indeed some reason to fear retaliation, if only because the United States would be violating Article III of the General Agreement on Tariffs and Trade, which flatly prohibits domestic content requirements. But even if our trading partners consciously refrain from retaliation, about the same number of U.S. exports would disappear as the balance of trade readjusted; the real danger of retaliation is not that it strikes at our exports, but that it strikes at the wrong exports—those that are not marginal.

The committee bill would cut imports by 1.15 million cars a year, CBO says, increasing domestic production of autos and light trucks by 623,000 to 13.2 million and increasing prices by a most likely figure of $333 per vehicle. Total costs to consumers would amount to $4.9 bil-

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"Build a better mousetrap and the world will kick you in the head."

lion, of which $1.1 billion would be inefficiency losses borne by the U.S. economy, including $865 million in increased payments to foreign auto companies. Even these effects are not so severe as those of the original version of H.R. 5133, which CBO predicted would most likely raise auto prices by $500 and cost consumers $7.3 billion a year.

The inefficiency losses are, if anything, probably understated. For example, causing foreign producers to shrink their production runs would itself drive up costs because of the economies of scale involved. According to an estimate by Charles River Associates, an assembly plant does not approach efficiency until it produces 250,000 compact cars a year—300,000 for "minis"—all of which should consist of one or two models. If the output of such a plant falls to 200,000 units a year, unit costs rise almost 10 percent above the efficient minimum.

The foreign manufacturers that have built assembly plants in this country would have trouble meeting the rule. In 1981 Volkswagen produced more cars here than it imported, but still achieved a domestic content level of only about 40 percent. Honda, similarly, has opened a plant in Ohio to assemble its Accord model, but Accords represent only about half its total sales here. It would be ironic if a content law forced one of these firms to abandon the U.S. market and close its assembly plant here. Nissan said in hearings that it would have to consider closing its new Tennessee truck plant if the bill became law.

Local content laws also impose costs on domestic automakers (GM, Ford, AMC, and Volkswagen all criticized the legislation in recent hearings). Their ability to import parts from abroad enables them to adopt improvements in their American lines with a minimum of disruption and delay. For example, Chrysler at first bought engines and standard transmissions from Volkswagen in order to bring its successful Dodge Omni/Plymouth Horizon model to market quickly. Even now Chrysler imports engines for its K-cars. Importing engines from Japan also helped GM introduce some diesel models quickly. Isolation from technological developments in the world market would probably freeze U.S. automakers out of the export market, where most of the future growth in auto sales is thought likely to occur.

There would also be economic losses, including some job losses, at the 40 percent of all new car dealerships that handle foreign cars. In addition, between 7,600 and 11,600 jobs would be lost at U.S. ports, according to the Department of Transportation's estimate.

All in all, then, the proposals are likely to impose even higher overall costs and produce fewer new jobs than CBO forecasts (as CBO itself points out). That forecast is bleak enough: 100,000 new jobs (before the balance of trade readjusts itself) at a consumer cost of $4.9 billion works out to $49,000 per job. Even the inefficiency costs alone, at $1.1 billion, amount to $11,000 per job saved. Both figures, as we have seen, rest on the naive assumption that U.S. exports would not drop.

Let us assume that no retaliation occurs and that for some reason cutting imports fails to cut exports proportionately, so that reducing imports by a dollar reduces exports by only, say, 75 cents. Assume further that export industries generate the same number of jobs per dollar as the auto industry—another conservative assumption—and ignore miscellaneous job losses at ports and dealerships. Then the committee's bill would create 25,000 jobs on net,

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through the current new-source standards, some accommodation ought to be possible. It might take the form of permitting new plants to offset some of their emissions, coupled with an aggressive program of job assistance and

... the tab for these programs, per worker, is more than a hundred times lower than that of even one year's job protection through the new-source standards....

perhaps even salary supplementation in the areas likely to be adversely affected. Since new mining jobs would be opening up in areas near those where other mines would close, it might in fact be possible to relocate miners in new jobs at an even lower cost than in the programs cited above.

Conclusion

In 1983, when Congress once again considers Clean Air Act reform, it will no doubt linger over the effects of air pollution control on jobs. One would hope that the discussion will be more enlightened than in years past. Although the jobs of coal miners—indeed, all workers—are important, we need not spend $320,000 to $740,000 a year to guarantee them, particularly when suitable, far more cost-effective alternatives are at hand.

In next year's debate, some will be sure to claim that a new-source offset program would harm the environment. The harm would occur, they will argue, when the existing plants that provided the offsets for the new plants are retired, leaving new plants that are dirtier than they would have been had the current standards been kept. But this point would not be reached for twenty or thirty more years. There is ample time between now and then to develop new and still less expensive means of sulfur removal. One such technology, fluidized bed combustion, may already be near at hand and others are sure to be developed. In the meantime, using cleaner coal and fuel oil is not only the most efficient way for us to control sulfur emissions; it is also —fittingly enough—the most "natural" way as well. ■

The High Cost of "Local Content"
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costing $196,000 per job a year to U.S. consumers, of which $44,000 would be inefficiency losses.

The jobs would cost at least five times as much as they would be worth to their holders. In 1981 auto workers earned an average $25,000, compared to $16,500 for manufacturing workers generally. With fringes, the total came to around $40,000 per year. The supply industries where most of the jobs would be created have lower wage rates.

Perhaps the most telling argument of all is that many of these new jobs will take years to arrive. The changes would be phased in, and the eventual permanent rules would not come into effect until model year 1986, three years from now. Furthermore, the bill penalizes but does not prevent noncompliance with the local content targets. In the year following a violation, for instance, an offending firm would be permitted to sell only a certain share of what it had sold in the previous year, under a complex sliding scale of percentage cutbacks that would vary with the degree to which it had fallen short of the content quota. Under this rule, some big Japanese exporters would not be forced all the way down to the 100,000 level until around the end of the decade, assuming they decided to avoid American content and accept lower sales.

Such transition periods are obviously necessary if foreign producers are to be persuaded to relocate their plants here, since they cannot build plants overnight. In the meantime, however, auto workers are unlikely to wait around for the new jobs; most will have found employment elsewhere long before then. CBO's analysis of the original version of the legislation indicated that less than half the new jobs would be in place by 1985, and many would not show up until 1990—not in time to be of much good to an auto worker out of work in 1982 and 1983.

Clearly we would be better off paying these workers a handsome wage to stay home—or, better yet, to find jobs in other industries, so that their efforts could go toward work more useful than that of switching the national origin of otherwise identical cars. One thing is certain: at these prices, Washington could not afford to save even half the jobs in the labor market. It would run out of gross national product first.