emy's president was complaining that the NATO Pershing 2 would reduce the attack "time span to only five to seven minutes," and thus "completely preclude" chances to avert an all-out confrontation.

NATO, with its yet-to-be-deployed Pershing 2 missiles, has been faced since 1977 or so with the SS-20s, which themselves have flight times to Western European targets of the same time span.

This seeming Soviet adoption of what

Equipping modern Soviet submarines with nuclear-tipped cruise missiles, as they threaten to do in retaliation for the NATO Pershing and cruise missile deployments, would provide an almost undetectable and survivable capability for years to come. But the Soviets are seasoned long-term planners. Assume they ultimately agree to "zero-zero" INF land-based missiles. They could have an alternate deployment option for survivable sea-based nuclear cruise

the Negev. Air space over the Mediterranean could be covered almost to Famagusta, Cyprus. This includes important parts of U.S. Sixth Fleet operating areas in the eastern Mediterranean. The viability of Israeli aircraft, especially the crucial E-2C recce/surveillance and battle-management aircraft could be in doubt if engaged by the SA-5 in any conflict.

What does all this have to do with the subject of Soviet retaliation against NATO

up of SS-20 intermediate-range missiles, the Soviets will establish a new "fence" of interceptor missiles in East Germany? Will there also be an increased and invulnerable Soviet submarine cruise missile threat to NATO?

Mr. Cotter was assistant to the secretary of defense (atomic energy) and chairman, Military Liaison Committee to the Department of Energy from 1973 to 1978.

WSJ July 26/83

How the IMF Could Become a Real S&P for International Debt

By Fred L. Smith Jr.

Should the U.S. donate an added $8.4 billion to the International Monetary Fund? IMF opponents, of course, answer "No." They claim that increased IMF funding only would bail out the big banks. Generally, however, IMF supporters favor the increase. They view the IMF as a vital credit-rating agency, a political Standard & Poor's that also lends. And, certainly, accurate credit-assessment is necessary if private institutions—the developing nations' primary source of funds—are to continue foreign lending.

But the IMF's proponents fail to consider the S&P example fully. Why do we need an imitation S&P? Why not S&P itself, or some other private-sector concern? A close examination of the S&P model suggests that the IMF functions are better handled privately, and that the IMF's lending role be eliminated—not expanded.

To see this, let us briefly review how the IMF functions. A debtor nation calls upon the IMF when it discovers a foreign-exchange shortage. The IMF then sends a "mission" to determine what steps the nation should take to regain economic well-being, and those steps are defined in a "conditionality" agreement. If the debtor nation accepts these conditions, it gets a direct IMF loan and—far more important—access to the world's private credit markets. The IMF then monitors the debtor nation's adherence to these agreed-upon conditions. If problems develop—as they have in recent years with distressing frequency—the IMF threatens to suspend loan payments, the private sector follows suit and negotiations begin again.

The main reason that countries accept such restrictions or conditions is their desire for private-sector loans that are predicated on the IMF's credit approval. The IMF's direct lending role plays at most a minor part, because private sources historically provide almost 80% of the funds made available through IMF operations. Private lenders accept the IMF's ratings largely because they trust its accuracy and honesty.

But this trust is compromised by both the IMF's political nature and its direct lending role. The political problems are obvious. Suppose the U.S. government rated municipal bonds. Democratic administrations would be accused of favoritism by Republican mayors and vice versa. In contrast, while Moody's and S&P receive occasional criticism—no borrower likes his credit rating lowered—their overall reputations remain intact. The reasons for this are clear. Like any private concern, S&P must sell its product—in this case, its credit assessments—to survive. In contrast, the IMF needn't meet any such market test, and thus is free to play politics. Not surprisingly, the IMF has been accused of political bias in its decisions on loans to such nations as South Africa and Nicaragua.

The IMF's lending role creates an equally obvious problem. Suppose S&P had to rate New York City's bonds while it simultaneously held them. S&P would have a strong incentive to avoid any downgrading that would reduce the value of its own holdings. Instead, it would be tempted to "work with" city officials to arrive at a "sound economic program for gradual recovery." Naturally, city officials would take advantage of S&P's conflict of interest to argue against any "severe" readjustments. They would argue for increased city salaries and continued public spending. S&P thus would be exposed to the type of political blackmail that the IMF undergoes.

The private market outperforms the IMF in yet another way. Both Moody's and S&P provide far more credit information than the IMF. S&P, for example, uses a 20-tier rating system (triple-A to single-D) with credit availability and interest rates varying accordingly. In contrast, the IMF uses only two classifications—a nation either is or isn't meeting its agreement. This makes the IMF's enforcement role difficult. Suspending loan payments seems too severe for minor infractions, yet a series of minor infractions becomes significant over time. The results are bizarre. Unwise policies by U.S. mayors—but not Third World leaders—are immediately reflected in bond ratings and thus higher borrowing costs. Cities are given an immediate chance to rethink their policies, while debtor nations don't receive warning until their economies are in crisis.

The private sector tries to avoid conflicts of interest and diffusion of effort. S&P leaves the business of lending to others, which leaves it free to let the rating chips fall where they may. Also, S&P elects not to play the paternalistic role assumed by the IMF and does not dictate any "recovery" plan. S&P doesn't consider itself competent to run a sovereign government, and is well aware that if mayors want management advice, they can hire professional consultants. The IMF would benefit from a similar concentration of function.

And the S&P approach works. Cities are aware of the basis of S&P ratings and determine their policies accordingly. Of course, S&P stands ready to discuss its decisions and may elect to revise them if the city modifies its policies. But S&P doesn't dicker with the city or offer to relax its usual grading terms in hopes of advancing the "bargaining process." Only the city's officials decide whether the policy is worth the higher borrowing costs.

Further, S&P, unlike the IMF, judges results, not merely intent. Thus, S&P avoids the dilemma confronting IMF when it finds that a debtor's economic prospects have been reduced by uncontrollable events or actions not circumscribed by the conditionality agreement. The changed economic prospects suggest further belt-tightening; but as the nation has lived up to its agreement, it wouldn't be "fair" to penalize it. The S&P approach is superior. S&P provides information about the prospects for debt repayment—not moral judgments about the debtor's intent.

Finally, the S&P model has the attraction of being self-financing. The costs of rating and monitoring a bond issue over its lifetime are paid by the concerns or governments issuing the debt.

In brief, the market has much to teach the IMF's supporters. In particular, the market's separation of lending and credit-assessment tasks argues against any expansion of the IMF's lending role. Such an expansion merely would exacerbate an already serious conflict of interest. More generally, S&P and its private-sector competitors demonstrate the superior approach that the IMF should seek to imitate. Congress should avoid any act that moves us further from this ideal.

Mr. Smith is director of government affairs for the Council for a Competitive Economy, a Washington-based business membership organization.

It's a Success, but Truck Deregulation Remains a Long Haul

By Thomas Gale Moore

President Reagan ran for office on a supply-side program that consisted of across-the-board tax cuts, spending cuts and a reduction in regulatory burdens. He succeeded eminently in cutting marginal tax rates, and the rate of growth in spending has been slowed modestly, despite Congress. To date, however, he has failed to achieve significant regulatory reform. In some regulatory areas, poor appointments have made reform almost impossible; in other areas, inept and poorly drafted proposals have resulted in the courts slapping down sensible policies.

Trucking deregulation has been on presidential agendas for two decades, with modest progress. Unfortunately, timid political advisers appear likely to snatch further reform out of the hands of Reagan policy makers to placate the insatiable appetite of the Teamsters.

In 1980, over the bitter objections of the trucking industry and the Teamsters, Congress passed the Motor Carrier Act, reducing regulation of the trucking industry. That act, together with a pro-competitive majority of Interstate Commerce commissioners, has made entry into the motor-carrier industry much easier and has encouraged competitive pricing. The number of carriers ballooned from 17,000 in 1979 to more than 25,000 in 1982.

According to the preliminary results of a survey conducted this spring, prices have fallen an average of 26% for truckload shipments and about 15% for smaller loads since 1978, when the ICC began to loosen entry controls. There can be no doubt about the results of reduced regulation. For example, nearly half the respondents found that service is more prompt, and twice as many believe that reliability has improved as believe that it has declined. The ICC reports that shippers' complaints have fallen sharply. The commission also states that service to small communities either remains unchanged or has improved after the passage of the Motor Carrier Act.

But unnecessary and debilitating regulation still remains. Prices aren't fully aligned with costs and some inefficiencies continue.

Should the current pro-competitive commission change, through a few poor appointments, to one that supports the trucking industry's attempt to reduce competition, rates will increase and inefficiencies will grow. At the moment, most significant votes on the ICC are decided by a 3-1 vote, with the chairman the sole supporter of the industry view. The four-member commission currently is three short of its statutory membership. If three new commissioners are chosen who reflect the views of the Teamsters or some of the major trucking firms, much of the progress of the past six or seven years will be vitiated.

Even in the current low-regulatory regime problems exist. There are bulk carriers that threaten companies applying for new authority that if they request bulk authority, these bulk carriers will protest the application, adding greatly to the cost of concerns that aren't particularly adept in dealing with Washington bureaucracy.

Recognizing the problems remaining with trucking regulation, the Transportation Department has prepared a bill to eliminate all trucking-industry controls. This bill has the support of the conservative National Association of Manufacturers, numerous shippers and the liberal-left Naderites. It would provide significant benefits to shippers, to consumers and to the economy. Early last month, Transportation Secretary Elizabeth Dole was ready to put this bill before a cabinet council in the White House, where it was to receive a presidential blessing before being sent to Congress. But Labor Secretary Raymond Donovan prevailed on White House aides to have it removed from the agenda. Apparently Jackie Presser, the Teamsters' president, threatened that the union wouldn't support Mr. Reagan for reelection if the legislation were proposed.

We can only hope that the president will overrule his cautious political advisers and support a free market, eliminating the continued heavy hand of regulation. Teamsters membership in the motor-carrier industry can't be more than a few hundred thousand, and it seems unlikely that the union's leaders would be able to deliver the votes in any case. Finally, the battle against inflation and for a free, productive society is too important to allow good policy to be warped by the threats of union bosses.

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