and China in 1969, the Soviet threat became foremost in the minds of China's leaders. But in the mid-1960s, Beijing's main global objective was thwarting U.S. imperialism, and support for Hanoi was a key element in Mao Zedong's strategy.

China's commitment was reflected in the amount of diplomatic and military support it gave to Hanoi. In 1962 alone, Beijing supplied 90,000 machine guns and rifles to the Viet Cong. Chinese threats to intervene in Laos were a key factor in the U.S. decision in 1962 to accept Laos's "neutralization." That allowed Hanoi to continue using Laotian supply lines to its forces in South Vietnam. And in August 1964, when the Americans began air attacks against North Vietnam, Beijing launched "a massive crash program to construct a large, self-sufficient industrial base deep in China's interior." This costly and top secret "Third Front" program, Garver says, was not an attempt to send signals to Washington but a serious effort to get China ready for a major war with the United States.

In 1965–67, Beijing, in essence, threatened openly to enter the Vietnam War on Hanoi's side if the United States "carried the war too far." By the spring of 1966, nearly 50,000 Chinese soldiers were in North Vietnam, although Beijing did not officially acknowledge their presence. Some Chinese People's Liberation Army anti-aircraft units actively engaged U.S. aircraft in combat.

"Most probably," Garver writes, "China's policy toward the Vietnam War was not governed by hard and fast principles, but evolved in response to U.S. actions and other international developments." Nevertheless, during the critical mid-1960s period, when the American commitment to the war was irrevocably made, China's entry was a real possibility. It would have been imprudent—and perhaps disastrous—for U.S. strategists not to take that into account.

ECONOMICS, LABOR & BUSINESS

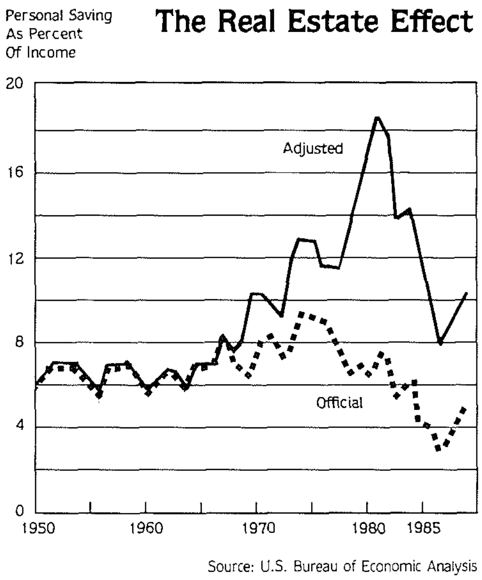
Saving Is Not Out of Fashion

"Explaining the Postwar Pattern of Personal Saving" by Alicia H. Munnell and Leah M. Cook, in *New England Economic Review* (Nov.-Dec. 1991), Research Dept., Federal Reserve Bank of Boston, P.O. Box 2076, Boston, Mass. 02106–2076.

The decline of America's personal saving rate is often cited as a cause of the nation's economic decline and even as evidence of its moral decay. Personal saving as a share of disposable income dropped from nearly 10 percent in the early 1970s to a low of 2.7 percent in 1987. That was largely a statistical illusion, reply Munnell, vice president and director of research at the Federal Reserve Bank of Boston, and Cook, senior research assistant. As they see it, there was, in fact, no fundamental shift in attitudes toward saving.

Instead, Munnell and Cook finger two principal culprits behind the apparent reduction of personal saving. One—responsible for about one percentage point of the decline—was a striking drop in employer contributions to private pension plans, which are counted as personal saving. The tremendous bull market on Wall Street during the 1980s filled pension fund coffers. Employers who sponsored "defined benefit" plans (in which they promise to pay a fixed benefit) stopped paying as much into the funds. Annual contributions to private pension plans, which grew from $13 billion in 1970 to $49 billion in 1979, suddenly leveled off and, in nominal dollars, even declined during the 1980s.

The other major culprit, according to the authors, was the spectacular housing boom of the late 1960s and '70s, which occurred as baby-boomers began to establish their own households. Real capital gains on the nation's housing doubled. With



Official statistics show an alarming decline in personal saving since the early 1970s. But making an adjustment for rising returns to homeowners produces a different story.

their nest eggs thus enlarged, homeowners in the 1980s cut their saving out of current income. Because official accounting severely understates the investment return to housing, the authors say, the personal-saving picture looked much worse than it really was.

Once that flaw in the official accounting is corrected, according to Munnell and Cook, it turns out that instead of falling during the late 1970s, personal saving actually surged higher as a result of the larger return to housing. "When the escalation in housing prices ceased . . . the return to owner-occupied housing regained more normal levels and saving dropped"—but not as far down as the official picture indicates. "The saving rate appears to have dropped back to levels experienced in the 1950s and 1960s rather than to unprecedented lows." This finding seems to represent a verdict of acquittal, on the spendthrift charge at least, for the oft-lambasted "me-generation."

The Other Tax Bill

"Unhappy Returns" by James L. Payne, in *Policy Review* (Winter 1992), 214 Mass. Ave. N.E., Washington, D.C. 20002.

Americans are painfully aware of the toil and trouble that leads up to April 15. Yet Washington seems oblivious. It should not be, contends James Payne, director of Lytton Research & Analysis, in Sandpoint, Idaho. Although the private-sector costs of operating the tax system appear nowhere in the federal budget, he calculates that they are equal to 65 percent of Washington's tax revenue—$618 billion in 1990.

The lion's share of that invisible burden—$315.6 billion, equivalent to 33 percent of all tax revenue—comes, according to Payne's analysis, in the form of production lost because of taxation's economic disincentives. Economists may differ over that amount, but about the fact that *compliance* with the tax system has substantial costs there can be little disagreement.

A nationwide survey in 1985 found that individuals spent 1.8 billion hours and businesses spent 3.6 billion hours keeping records, learning about regulations, making calculations, and filling out forms. Payne figures that the cost of individual compliance that year was more than $57 billion and of business compliance, more than $102 billion. In 1990, he calculates, the total cost of compliance was more than $232 billion.

Legal and illegal attempts to avoid taxes, along with the burdens of litigation and of having to cope with government enforcement efforts, bring the unofficial tax bill still higher, boosting it nearly $65 billion in 1990, according to Payne. That year, the IRS not only conducted 1.2 million audits but also sent out 4.9 million computer-generated letters to taxpayers suspected of underreporting their incomes or failing to file required returns. A General Accounting Office (GAO) study found that such computer notices contained errors nearly half the time.

But it is not only computers that err. "As the U.S. tax system has become both more