FOREIGN POLICY & DEFENSE

Codifying Strategic Parity

"Arms Control and Soviet Strategic Forces: The Risks of Asking SALT To Do Too Much" by Richard Burt, in *The Washington Review* (Jan. 1978), Transaction Periodicals Consortium, Rutgers University, New Brunswick, N.J. 08903.

Western hopes for the success of the Strategic Arms Limitation Talks with the Soviet Union have vastly declined over the past five years. Three trends in Soviet behavior have been especially disconcerting, says Burt, defense analyst for the *New York Times*. These trends are: the continuing momentum of Soviet weapons procurement; Moscow's emphasis on air defense and on steps to limit damage in the event of nuclear war; and violations of the spirit, if not the letter, of the 1972 SALT I accords by modernizing Soviet forces not covered in the agreements.

The chief concern of Western defense planners, says Burt, should be "the growing capability of the Soviet Union to attack U.S. strategic forces and limit damage to its own military and civilian assets in the event of counterattack." The Soviet SS-17, SS-18, and SS-19 ICBMs "pose serious problems for the survivability of the existing U.S. land-based missile force." Nevertheless, it is doubtful that the Soviet Union can successfully overcome the Western strategic "triad" of ICBMs, submarine-launched missiles, and bombers.

In a situation of uncertain mutual vulnerability in which each side adheres to a different view of a stable world, it is a mistake to expect too much from SALT, says Burt. Rather than nourish American expectations that cannot be satisfied, Washington should use SALT to achieve "mutual recognition" that the strategic arsenals of the two sides are roughly equal. " 'Political equivalence' or the codification of parity," Burt argues, "is a more realistic objective for the talks to pursue than 'technical stability'."

ECONOMICS, LABOR & BUSINESS

The Elusive Point "E"

"Taxes, Revenues, and the 'Laffer Curve' " by Jude Wanniski, in *The Public Interest* (Winter 1978), P.O. Box 542, Old Chelsea, New York, N.Y. 10011.

There are always two tax rates that yield the same revenues. A tax rate of 100 percent assures that all production ceases in the money economy; there is nothing for the government to tax and hence government revenues are zero. A tax rate of zero percent also produces no government revenues, but production is maximized with output limited only by the desire of workers for leisure.

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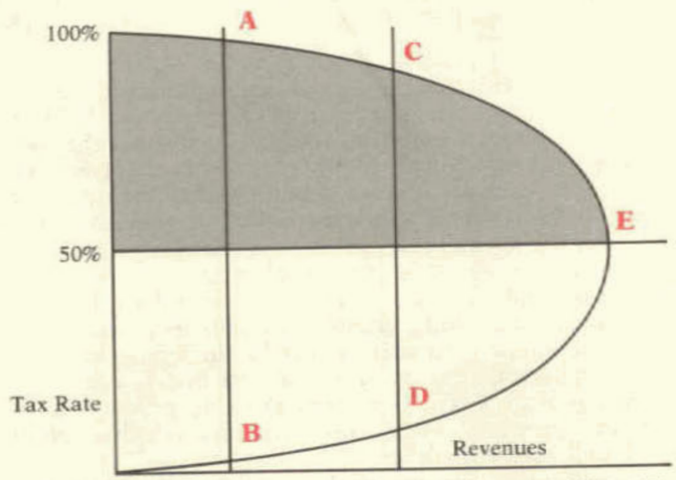
THE LAFFER CURVE



From Jude Wanniski, "Taxes, Revenues, and the 'Laffer Curve'," The Public Interest, No. 50 (Winter 1978).

This simple proposition has been diagrammed by Arthur Laffer, professor of business economics at the University of Southern California, as what has come to be called the "Laffer curve."

The aim of any government is to maximize both revenues and production, on the diagram at point E. In effect, E represents the point at which both lower and higher taxes will fail to produce any increase in revenues. At points B and D the electorate desires more government services and is willing to pay higher taxes without reducing productivity. At points A and C, the electorate desires more private goods and services and lower tax rates.

"It is the task of the statesman to determine the location of point E," says Wanniski, associate editor of the *Wall Street Journal.* That location, which is variable, is the point at which the electorate desires to be taxed; in wartime emergencies, it can approach 100 percent.

Historical evidence bears out the claim that a reduction in taxes can lead to a rise in both revenues and output. English tax cuts immediately after the Napoleonic Wars (i.e., post-1815) set the stage for 19th-century English expansion; the tax cuts imposed by Treasury Secretary Andrew Mellon in the 1920s were accompanied by a period of phenomenal U.S. economic growth. Conversely, argues Wanniski, the real source of Russia's chronic agricultural problems lies in the high marginal tax rates (90 percent) exacted on the state's collective farms.

Wanniski concludes that it is crucial to Western economic prosperity that "conservative" political parties press for reduced tax rates along the lower range of the "Laffer curve." Empires, he says, "are built on the bottom of this simple curve and crushed against the top of it."