

ECONOMICS, LABOR & BUSINESS

*The Perils of
East-West Trade*

"The Fragile Foundations of East-West Trade" by Raymond Vernon, in *Foreign Affairs* (Summer 1979), P.O. Box 2315, Boulder, Colo. 80322.

Growing East-West trade will eventually cause friction in the West and undeserved financial gains for East Europe's communist regimes.

So contends Vernon, an economist at Harvard Business School. The inequities inherent in trade between market-based and government-controlled economies increase with the volume of transactions. (Over the past 15 years, annual East-West trade has grown from \$3.5 billion to over \$35 billion.) Because the state is the sole buyer for the entire economy in communist countries, Western firms, eager to gain access to a vast market, compete fiercely, cutting prices to get a foot in the door. At the same time, communist exports, priced cheaply by export ministries (which don't have to answer to stockholders or unions) are highly competitive on the world market. And the Soviets' preference for bilateral trade pacts often forces Western trading nations to import a wide range of Russian goods, thus harming the export business of their non-communist allies. For example, Vernon writes, "Western European countries tolerate the imports of steel and textiles from Eastern Europe while barring similar imports from Japan and the developing nations."

East-West trade will continue to expand, Vernon predicts. He suggests that the 24 members of the Organization for Economic Cooperation and Development (including Britain, Canada, France, Italy, Japan, West Germany, and the United States) informally agree to cooperate on trade with the Soviets and their Eastern European partners. The terms of such cooperation: "No trade should . . . take place unless it contributes a net economic benefit to the [Western] market economies as a group." The big problem, he admits, will be convincing the Soviet Union and other Eastern countries to abandon some "long unchallenged assumptions," notably that *their* trade restrictions can be justified as purely economic measures, while decisions made by Western countries to block trade deals are politically motivated sanctions.

*Loopholes
for the Poor*

"Those Infamous Tax Loopholes" by Roger A. Freeman, in *Taxing & Spending* (July 1979), The Institute for Contemporary Studies, 260 California St., San Francisco, Calif. 94111.

Thanks to individual income tax "loopholes," 260 Americans who made over \$200,000 paid no federal taxes in 1975. But, then as now, the vast majority of legal tax deductions favored people earning less than \$10,000.

Freeman, a senior researcher at the Hoover Institution, and former White House adviser, writes that one-fourth of the 82 million Americans who filed returns with the Internal Revenue Service (IRS) in 1975