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 reported no taxable income. Of these non-taxpayers, 95 percent had an adjusted gross income below $10,000, while only .009 percent (1,845) reported incomes over $30,000. Most of the untaxed earnings went to people in low- and middle-income brackets and included: (*a*) income below minimum taxable levels; (*b*) payments from social security, welfare, and unemployment compensation; (*c*) nontaxable military pay allowances.

Many individuals in the over-$200,000 bracket who avoid paying taxes appear richer on the IRS's ledgers than they actually are, Freeman argues. Most have profited from investments made with borrowed money. For example, a loan of $2 million at 10 percent interest, invested at a 12 percent rate of return, delivers the investor a gross income of $240,000 (putting him, according to the IRS, in the over-$200,000 bracket). But he pays out $200,000 in nontaxable interest on the loan. If he has no other income beyond his remaining $40,000 but can claim enough medical, charitable, and other deductions, the government collects nothing.

About 85 percent of the taxpayers reported incomes under $20,000 in 1975. To please them, politicians will probably continue to assail "loopholes for the rich," writes Freeman. But, in fact, he claims, the U.S. system of income tax and tax deductions has become the nation's way of redistributing income. It "shows the same bias that characterizes the entire American fiscal structure: in favor of the low (or no) producer and against the high producer or earner."

Do Women Make Better Managers?

"Styles of Management and Communication: A Comparative Study of Men and Women" by John E. Baird, Jr. and Patricia Hayes Bradley, in *Communications Monograph* (June 1979), 5205 Leesburg Pike, Falls Church, Va. 22041.

Female business managers, using a style of leadership clearly different from the techniques of their male counterparts, are more successful at promoting employee morale, report Baird, a management specialist, and Bradley, an Indiana University speech professor.

Baird and Bradley surveyed 150 Midwestern hospital, clerical, and production-line workers about communication with their bosses. They found that female supervisors, more than males, were willing to share information with their subordinates about other company departments. Workers (of both sexes) supervised by women more often described their bosses as being "receptive" to employees' ideas and suggestions. And women managers tended to pay more attention to individual workers' problems and to reward efforts with encouragement or a pat on the back. Such qualities, say the authors, parallel the prescriptions for effective supervision offered by prominent management theorists.

Meanwhile, employees depicted their male managers as trying to