Kaufman points out, "the prospects for democratic forces succeeding are too remote and America's stake in a favorable outcome too limited to justify active U.S. involvement on democracy's behalf." President Harry S. Truman's decision not to intervene in the Chinese civil war of 1946–49, for example, appears wise in retrospect, "not because Chinese communism was not odious, but because the United States could not ensure the victory of the Nationalists at tolerable costs and risks."

The realists and neorealists *do* have a point, Kaufman acknowledges. "Many American idealists have indeed slighted the importance of power and rivalry in international politics." And many champions of democracy have failed to take into account the difficulty of promoting and sustaining democracy in hostile regions of the world.

The end of the Cold War may make the task of spreading democracy to remote areas less urgent. But the best feasible approach for post-Cold War U.S. foreign policy, Kaufman concludes, is one in which geopolitics, the promotion of democracy, and a Judeo-Christian conception of man and morality play major parts. This calls, he says, for "a vigilant and prudent internationalism."

ECONOMICS, LABOR & BUSINESS

Smith's Poverty Of Notions

"The Trouble with Adam Smith" by Thomas K. McCraw, in *The American Scholar* (Summer 1992), 1811 Q St. N.W., Washington, D.C. 20009.

Communism has failed, capitalism has won, and Adam Smith (1723–90) is the hero of the hour. Yet McCraw, a Harvard historian, doubts that Smith's laissez-faire version of capitalism is the wave of the future.

Smith had a profound aversion to any form of collective action, McCraw notes. For him, individuals and markets were "natural," but institutions and organizational hierarchies were not. Whether the organizations were guilds, universities, political groups, or even business corporations made no difference. "In Smith's world, something rotten is likely afoot wherever two or more individuals are gathered together, except as family members or in the unambiguous roles of buyer and seller."

Only agriculture, in Smith's view, was fully "natural." The Industrial Revolution, then just getting under way, was, he thought, nothing more than the division of labor. Smith failed to recognize, according to McCraw, the key roles of "machine production, fuel and water power, human entrepreneurship, state promotion of manufacturing, and, most important of all, technology."

Now We Understand

Ever wonder why economics is often incomprehensible? In *Economic Inquiry* (Oct. 1992), economists David N. Laband and Christopher N. Taylor, of Salisbury State University and Auburn University, respectively, explain why most economists are wretched writers.

There are numerous margins upon which the professional acceptance and acclaim of an author's research findings may hinge. Writing style is but one of those margins. Other margins include, but are not limited to: the timing of the contribution, caliber of data, innovativeness of statistical technique, theoretical insight, and importance of contribution to the work of other scientists. By definition, a scholar cannot possess a comparative advantage with respect to operating on all of these margins simultaneously. It seems doubtful, if not extremely unlikely, that any scholar routinely maximizes on all margins simultaneously, without regard to the costs of doing so. The scholar who wishes to maximize his expected return per unit of work effort balances off the expected net *marginal benefits of devoting resources to one aspect of his work against the expected* net *marginal benefits of devoting resources to any of the other aspects of his work. The efficient scholar operates at the point where expected net returns to incremental effort are equalized across all relevant margins of productivity.*

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In *The Wealth of Nations* (1776), Smith declared that consumption is the sole purpose of production, and he criticized the mercantile system of deliberate national economic development because it sacrificed the consumer's interest to that of the producer. "Historically, Smith's logic held up so long as the individual remained both the consuming and the producing unit," McCraw writes. In the modern world, most production is done not by individuals but by complex organizations. Unlike individual producers who act in their own short-term interest, corporations now make investment decisions five to 10 years in advance. Such planning, McCraw says, is best done with the help of "wise public policy."

Today, McCraw contends, consumer-oriented Smithian capitalism as practiced in the United States "is being consistently out-performed" by a more nationalistic, producer-oriented variety. "The German and Japanese economic systems today are just as market-oriented, just as 'capitalistic,' as is the American. But they are far less centered on the individual. Their architects, less fearful of deliberate applications of national economic strategies, less convinced that 'human institutions' inevitably produce 'absurd' results," draw on

Apples, Oranges, and Inequality

Sometimes it seems that the gulf between economists arguing over the extent of income inequality in the United States is wider than any gulf between rich and poor could possibly be. The partisan vapors of the recent presidential campaign seemed to provoke economists into fighting like cats and dogs, creating, if readers will pardon some mixed metaphors, a blinding hail of statistical apples and oranges.

However, even the warring economists seem able to agree on a few essentials. For nearly three decades after World War II, U.S. labor productivity soared and the wages of American workers grew apace. By 1973, the median income of young (ages 25–34) men with high-school degrees reached a postwar high of more than $24,500 (in 1988 dollars), while the official poverty rate reached a postwar low of 11.1 percent. The rich were getting richer, but so were the poor—and everybody in between. And when there is more for everybody, persistent inequality seems not to matter much.

There also seems to be general agreement that inequality has since grown worse. How much, since when, and why, however, are the questions that set the apples and oranges flying. There is no denying that a "massive increase in inequality" has taken place, asserts MIT economist Paul R. Krugman in a recent review of the debate in the *American Prospect* (Fall 1992). Based on Congressional Budget Office figures, he calculates that 70 percent of the rise in average family income between 1977 and 1989 went to the top one percent of U.S. families, which now enjoy an average income of $300,000. "[T]he typical American family has seen little gain in spite of rising productivity," he maintains—although in a typical apples-and-oranges maneuver he fails to report what exactly that "typical" family did gain.

When the liberal Krugman's calculation was made public last March, conservatives counterattacked. The editors of the *Wall Street Journal* (May 11 and May 21, 1992) admitted that there has been "a trend toward somewhat greater income disparity" but called Krugman's estimate of its magnitude "preposterous." The *Journal* editors approvingly cited an estimate by economists at the President's Council of Economic Advisers (CEA) that only 25 percent of the total increase in family income went to the top one percent of families.

The CEA was right, Krugman says, but it chose to look at a misleading statistic. *Total* family income did rise sharply, but that was because the total number of families jumped. Naturally, the rich captured a smaller share of this increase. But the *average* income of all families rose by only 10 percent between 1977 and 1989.

As Marvin H. Kosters, a resident scholar at the American Enterprise Institute (AEI), warns in the *American Enterprise* (Dec. 1992), such "snapshots" of the distribution of income can be misleading. Thanks to upward mobility, many poor and middle-class families better their conditions even at times when income inequality is growing. How many families? This question sets the economists off on a new debate: Is the glass half full or half empty?

Comparing data from the mid-1960s to the mid-1980s in the Urban Institute's *Policy Bites* (June 1992) Isabel V. Sawhill and Mark Condon note that upward mobility is "substantial" and did not diminish over the 20-year period. Roughly half the people who find themselves in

the intellectual legacies of Alexander Hamilton (1757–1804) and the German nationalist Friedrich List (1789–1846). Their strategies, McCraw says, are well-suited to a modern world economy that is "dominated by... nationalism, technology, organization, and power," the very things Adam Smith ignored or abhorred.

Capital Problem

"Capital Disadvantage: America's Failing Capital Investment System" by Michael E. Porter, in *Harvard Business Review* (Sept.–Oct. 1992), Boston, Mass. 02163.

Critics of America's economic performance have been saying for years that U.S. business is too oriented toward the short term. Harvard's Porter, who directed an extensive research project sponsored by the Council on Competitiveness and the Harvard Business School,

the bottom income "quintile" at the beginning of a decade are likely to climb into a higher quintile by decade's end. Following the fortunes of *individuals* in this way rather than *groups*, the authors say, shows that "on average, the rich got a little richer and the poor got much richer." So how can the glass be half empty? Because, Sawhill and Condon say, mobility has stayed the same while real wages have declined. Those who do not move up are stuck in jobs that pay less than they did before.

Sparing the reader the various oranges that have been hurled at the Sawhill-Condon apple, what about the next obvious question? Why has income inequality been growing, with all due respect to the contenders, a lot or somewhat worse?

Here, a few rare hybrid "aporanges" of agreement begin to appear. There now seems to be some agreement that the Reagan tax cuts of the 1980s had little direct impact on inequality. Joel Slemrod, a University of Michigan business school professor who organized a recent conference of middle-of-the-road economists, told the *New York Times* (October 1, 1992) that "the consensus is that growth in inequality was not due to changes in tax rates." (Bear in mind, however, that consensus is an unnatural state among economists.)

In a long review article in the *Journal of Economic Literature* (September 1992), economists Frank Levy of the University of Maryland and Richard J. Murnane of Harvard deliver one of the generally agreed-upon versions of what has gone wrong (though it does not touch upon such contentious issues as the rise of female-headed families). The Great Depression, they write, ushered in two decades of declining earnings inequality. An associate professor in 1930 made four times as much as an unskilled worker, but in 1950 only 2.3 times as much. Beginning in the early '50s, the trend reversed and inequality rose slightly. Then, during the 1980s, according to Levy and Murnane, came a dramatic rise. One big reason: There were fewer "middle class" jobs available for young men with only a high-school education. A growing number of young men in their prime could not earn enough to buy a single-family home. Whereas 57 percent of male high school graduates earned more than $20,000 in 1979, only 46 percent did in 1987.

The economy's shift away from manufacturing, the traditional source of high-wage jobs for less-educated males, hit young men hard. Between 1979 and 1987 the percentage of them employed in manufacturing declined from 38 to 29, while the percentage working in wholesale and retail trade—where wages are lower, in part because of competition from women—increased from 18 to 23. Education now counted for more. Young male college graduates working in manufacturing in 1979 had median earnings 21 percent above those of high-school graduates; by 1987, they enjoyed a 50-percent edge.

"The relative importance of learning has increased significantly," concludes AEI's Marvin Kosters. "Investments that workers make in themselves—through formal schooling, skill training, and work experience on the job—pay higher rewards than at any time in our recent experience." This new importance of education is the "serious point" to be found in the trend toward greater inequality in income, the editors of the *Wall Street Journal* (May 28, 1992) argue. "It is around this reality that one would expect liberals and conservatives to be able to have a serious, productive debate."

Oranges, anyone?