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?

agrees and thinks he can explain the myopia.

The problem stems partly from the fact that publicly traded U.S. firms increasingly rely on funds from transient owners—mutual funds, pension funds, and other institutional investors. Whereas such owners accounted for only eight percent of total stock-market equity in 1950, they held 60 percent in 1990. Their portfolios are highly diversified, with small stakes in many companies. Mutual funds and actively managed pension funds hold shares, on average, for under two years. In Japan, by contrast, roughly 70 percent of stock is held for many years. The U.S. fund managers want stocks to appreciate quickly and dump them if they do not.

That threat focuses the minds of corporate managers on the next quarter's financial results. It does not help that executives themselves often receive compensation in the form of stock options or tied to current profits.

Boards of directors, which are supposed to tend to corporations' long-term interests, have limited influence. The recent board revolt at General Motors is an encouraging sign, but it is still only that. "The presence of knowledgeable major owners, bankers, customers, and suppliers on corporate boards has diminished," Porter notes. Nearly three-fourths of the directors of the largest U.S. corporations are outsiders, with little knowledge about or stake in the companies they oversee.

Lack of information about their businesses also hinders top corporate managers. Many U.S. firms in recent decades have opted for a decentralized organizational structure involving highly autonomous business units. Top managers, as a result, are less familiar than in the past with the details of the business.

Systemic reform is badly needed. For one thing, Porter says, ownership should be greatly expanded. "Outside owners should be encouraged to hold larger stakes and to take a more active and constructive role in companies. Directors, managers, employees, and even customers and suppliers should all hold positions as important corporate owners." These are the parties that can best safeguard America's long-term interest in the future of the corporation.

SOCIETY

P. T. Barnum Lives!

"Reinventing the Museum" by Michael Lind, in *The Public Interest* (Fall 1992), 1112 16th St. N.W., Ste. 530, Washington, D.C. 20036.

On an August day in 1793, one year after the abolition of the monarchy in France, the Louvre was thrown open to the public and what is now thought of as the traditional art museum was born. "Along with the public school and the public library, the public museum is one of the characteristic institutions of bourgeois republicanism," notes Lind, executive editor of the *National Interest*. Communities in the United States point with pride to their museums, as they once did to their churches. Today, however, the traditional notion of the museum as a dignified place for the display of artistic masterpieces is under attack.

From the Left, it is assaulted by some who want to create "alternative" institutions free of the bourgeois taint (such as the Anonymous Museum, which opened in a Chicago warehouse in 1991), and by others who wish to turn the bourgeois institution against the bourgeoisie by mounting exhibitions that aggressively subvert the supposed ideology of the state or the corporate elite.

A more subtle—and perhaps more serious—threat, Lind says, comes from "the market-driven substitution of entertainment for enlightenment." The museum, critic Hilton Kramer observes, has become "an appropriate place in which to order lunch or dinner, buy something to wear, do our Christmas shopping, see a movie, listen to a concert, attend a lecture on anything under the sun, possibly even art." To draw crowds, museums mount "the blockbuster show, the middlebrow extravaganza," such as the King Tut exhibit or the Andrew Wyeth Helga show. "This profit-driven boosterism," in Lind's view, "tends to vulgarize the museum incidentally, at the very time that left-minded curators celebrate vulgarity deliberately."

"Avant-garde hype and shrewd commercialism" come together in shows like the "Helter Skelter" exhibit at the industrial annex of the Museum of Contemporary Art in Los Angeles. The displays there included a mechanical manikin copulating with a tree, and a 30-foot sculp-