peace where struggles are more economic than military," he observes, "it will still have to deal with those parts of the world run by young, ambitious, unconstrained men," such as, say, a future Saddam Hussein armed with nuclear weapons. That doesn't mean that men must rule the world, Fukuyama adds. "Masculine policies will still be required, though not necessarily masculine leaders." Tough female leaders like former British prime minister Margaret Thatcher, rather than more stereotypically feminine ones like Gro Harlem Brundtland, the former prime minister of Norway, may be the wave of the future.

ECONOMICS, LABOR & BUSINESS

Virtue in the Marketplace

"Bourgeois Virtue and the History of P and S" by Deirdre N. McCloskey, in *The Journal of Economic History* (June 1998), Dept. of Economics, Northwestern Univ., 2003 Sheridan Rd., Evanston, Ill. 60208–2600.

A Marxist might say that since the mid-19th century, the cultural superstructure of the industrialized West has contradicted the material base. Ever since the rise of capitalism, the businessman has been scorned, held up by novelists, intellectuals, and the enlightened in general as a greedy, manipulative miscreant, a thief, a scoundrel, a Philistine, a fool, a Babbitt.

As a result of all this abuse, the phrase *bourgeois virtue* has come to seem an oxymoron, even to economists. Ever since Jeremy Bentham propounded his theory of utilitarianism in the late 18th century, they have insisted that virtue is beside the point, which is prudent calculation. McCloskey, an economist at the University of Iowa, contends that prudence alone does not suffice to explain economic behavior or history. "We need a discourse of the bourgeois virtues: integrity, honesty, trustworthiness, enterprise, humor, respect, modesty, consideration, responsibility, prudence, thrift, affection, self-possession."

Some economic behavior depends on such virtues, McCloskey points out. Commercial undertakings, for instance, cannot succeed without trust. "What is remarkable about modern economic life . . . is the extension of such trust to comparative strangers. . . . If foreign trade was to expand in the 18th century it needed a large expansion of what might be called commercial speech—the trading of reputations and market information, the persuading of Mr. Jones in the far off Chesapeake to undertake a certain novelty in tobacco supplied that would be advantageous to his partner in Glasgow. In other words, commerce depended on virtues of conversation, the keeping of promises, speech acts." McCloskey calculates that about a fourth of national income in wealthy countries today is earned from "persuasion"—not just advertising, but sales talk, sweet talk, and even veiled threats by lawyers, executives, administrators, teachers, and others.

But if business depends on culture, McCloskey suggests, so, too, does culture depend on business. "Who we are depends on what we do, our ethics depend on our business. Commerce is a teacher of ethics. The growth of the market promotes virtue, sometimes." The market spreads habits of cooperation. The experience of uncertainty in trade encourages skepticism about dogmatic certitude. The bourgeois standard of reciprocity leads to philanthropy.

"Capitalism," McCloskey argues, "needs encouragement, being the hope for the poor of the world and being in any case the practice of what we were and who we are. . . . We encourage it by taking seriously the bourgeois virtues."

How Inflation Whipped Us

"Arthur Burns and Inflation" by Robert L. Hetzel, in *Economic Quarterly* (Winter 1998), Federal Reserve Bank of Richmond, P.O. Box 27622, Richmond, Va. 23261.

During the early 1970s, Federal Reserve Board chairman Arthur Burns was the very symbol of opposition to inflation. But the approach he favored to fight it boomeranged, writes Hetzel, vice president of the Federal Reserve Bank of Richmond, and that failure led to today's very different consensus on how to keep the dollar sound.

Burns, a distinguished economist who began his term as Fed chairman in 1970 and had previously chaired President Dwight D. Eisenhower's Council of Economic Advisers, did not believe that the Federal Reserve, by regulating the supply of money, could do very much to control inflation. Monetary policy influenced interest rates, and that might well affect the confidence of businessmen and their willingness to invest. But otherwise, monetary policy was of scant value, in his view, which was also the conventional wisdom of the day. Monetarist economists such as Milton Friedman, who believed that controlling inflation *meant* regulating the money supply, were then in a minority. Keynesian economists, who wanted to use the federal taxing and spending powers to keep the jobless rate down and the economy booming, represented the mainstream.

Although not a Keynesian, Burns accepted the general view that it was government's responsibility to keep the unemployment rate down to four percent or less, Hetzel says. As for inflation, Burns believed that it has many different causes, and that the most important in the early 1970s was excessive wage gains, stemming from the monopoly power of labor unions. When the jobless rate climbed to six percent in 1970, Hetzel says, Burns believed that the government had to act to "simultaneously restore price stability and full employment." Burns cheered when President Richard M. Nixon imposed wage and price controls on August 15, 1971.

"Controls did everything they were supposed to do," writes Hetzel, "except prevent a rise in inflation." When inflation registered in the double digits in 1973, Burns blamed a variety of special factors, especially a combination of a strong economy and shortages of oil, farm products, and other commodities. As these factors changed, he believed, inflation would decline.

Instead, inflation stayed in double-digit territory. Burns then lobbied hard for a continuation of wage and price controls, but Congress had had enough, and key figures in the new Ford administration—Alan Greenspan, chairman of the President's Council of Economic Advisers, and William Simon, secretary of the treasury—were opposed. Burns, who continued as Federal Reserve chairman through 1977, "then blamed inflation on government deficits," Hetzel notes, but the fact was that those deficits were very small in the high-inflation years of 1973 and 1974.

"For Burns, the source of inflation changed regularly," Hetzel writes. Because he had no economic model to be tested by experience, he could not, in a sense, learn from experience. But others did learn. The consensus today is that inflation is a monetary phenomenon, Hetzel notes. "The central bank is *the* cause of inflation"—and controlling it is the Federal Reserve's paramount responsibility.

The Lowdown on Wealth

"Who Owns What: The Things We Know That Are Not So" by John C. Weicher, in *American Outlook* (Spring 1998), 5395 Emerson Way, Indianapolis, Ind. 46226.

"The rich get richer and the poor get poorer," says the old Depression-era song, and it's a theme that's been heard a lot in recent years. Supposedly, wealth in America has been becoming more concentrated, with the rich claiming a fatter and fatter share, especially during the 1980s, that terrible "decade of greed." It's a nice, scary story, but Weicher, a Senior Fellow at the Hudson Institute, says it's not true.

The "rich" (i.e. the wealthiest one percent of U.S. households) since 1983 have generally owned between 30 and 35 percent of total U.S. wealth, Weicher says, and there is no clear trend. The percentage was 31 in 1983, 36 in 1989, 30 in 1992, and 35 in 1995, the last year for which data are available. These fluctuations could be just statistical variations, but Weicher thinks they correspond to the business cycle, with the rich suffering a greater decline in the value of their assets during recessions.

"The rich did get richer during the Reagan boom," he writes, "but so did the poor, and at about the same rate. Both rich and poor enjoyed an increase in wealth of approximately 20 percent between 1983 and 1992." (Income, however, is another story, he points out: "Income inequality has been increasing steadily since approximately 1967." Just why