during 1992–97. "Normally, a new state establishes its institutions of government first, and then goes on to create its policies and its currency. In this case, the common European policies and the currency are being created first," he observes in the *National Interest* (Spring 1998).

What is missing, Portillo says, is "a single European people. . . . The peoples of Europe are too different from one another, their histories, cultures, languages, and values are too diverse, for them to be brought together into one state." Forcing individual nation-states, which are democratic, into the European Union, which in itself is not, is a grave mistake, he believes. "The traditional danger in Europe has come from extremist nationalism," Portillo contends. "Political union seems likely to rekindle it, as national interests are ignored by policymakers who are both remote and irremovable."

The "forced march to unity" is endangering what has already been achieved in much of western and southern Europe, namely, "a new model of liberal order," argues Timothy Garton Ash, a Fellow at Oxford University, writing in *Foreign Affairs* (Mar.–Apr. 1998). "What we should be doing now is rather to consolidate this liberal order and to spread it across the continent. Liberal order, not unity, is the right strategic goal for European policy in our time." In Europe, "enlargement" is the theme of many critics of rapid unification.

But unity is the goal that most European nations are now pursuing. "It is difficult to see how the European Monetary Union can succeed," writes former secretary of state Henry Kissinger on the op-ed page of the *Washington Post* (May 12, 1998). "It is even more difficult to imagine that it will be permitted to fail."

Taming the Corporation

"The New Meaning of Corporate Social Responsibility" by Robert B. Reich, in *California Management Review* (Winter 1998), Univ. of California, 5549 Haas School of Business #1900, Berkeley, Calif. 94720–1900.

Back in the 1950s, it was a commonplace to say that major corporations ought to treat employees like family members and to function as good citizens in their communities. But times have changed, notes Reich, a professor of economic and social policy at Brandeis University and former U.S. secretary of labor. Today, he argues, government needs to step in and define corporations' social obligations.

The current conventional wisdom, Reich observes, is that publicly held corporations have only one responsibility: to maximize the value of investors' shares. And if doing that means laying off large numbers of workers, or getting 13-year-olds in Latin America to work 12-hour days for a pittance, so be it. After all, by helping to see that society's productive assets are arrayed most efficiently, corporations not only benefit investors but promote economic growth and the creation of jobs. True, says Reich, but society still may want the artificial creatures of law known as corporations to take into account other considerations, such as the welfare of workers and communities.

Once, in the era after World War II, the top executives of America's major corporations envisioned management's job, as Frank Abrams, then chairman of Standard Oil of New Jersey, did in a 1951 address: "to maintain an equitable and working balance among the claims of the various directly interested groups . . . stockholders, employees, customers, and the public at large." With investors quiescent and boards often docile, Reich writes, managers then could refrain from laying off employees, even though that might run counter to the best interest of the shareholders. But even in that era, he notes, corporations could take a minimalist view of their social responsibilities, as textile manufacturers did, for instance, when they abandoned the Northeast in search of cheap labor elsewhere.

Government does already "impose, by law, procedures by which stakeholders other than investors can participate directly in corporate decisions," Reich observes. Collective bargaining, as spelled out in the National Labor Relations Act, is an example. But further expanding participation in this way, he points out, would only "prolong and complicate" corporate decision making, and promote inefficiency.

Reich believes that Washington must

define corporate social responsibilities on "major questions": should they contract with "sweatshops" in Asia and Latin America? Should profitable companies lay off unneeded employees or retrain them for new jobs? These are not only ethical questions, Reich maintains, but issues of public policy, involving the weighing of competing social costs.

But corporations must not be allowed to subvert the process by political means—through lobbying, campaign contributions, and advertising. "It is not possible to have it both ways," Reich maintains. "The modern corporation cannot simultaneously claim, as a matter of public morality and public policy, that its only legitimate societal mission is to maximize shareholder returns, while at the same time actively seek to influence social policies intended to achieve all the other things a society may wish to do."

Caution: Economists at Work

"Reassessing Trends in U.S. Earnings Inequality" by Robert I. Lerman, in *Monthly Labor Review* (Dec. 1997), Bureau of Labor Statistics, Washington, D.C. 20212.

That earnings inequality has been increasing in the United States is now conventional wisdom. But just what is "earnings inequality"? The answer is not as straightforward as one might think—and neither is the trend, argues Lerman, an economist at American University.

What data you measure, and how you measure them, goes a long way toward determining what answers you get, he says. Economists often measure inequality as the distribution of annual earnings among full-time, year-round workers, and even frequently further limit their sample to men or to workers within a certain age range. This may be fine when trying to gauge progress toward some ideal, Lerman says, but it is not the way to assess how large forces such as trade and technological change are altering the *overall* U.S. wage distribution.

Lerman examined census data from the Survey of Income and Program Participation, as well as the more commonly used Current Population Survey. Defining "earnings" as compensation per hour for all hours worked by all workers in the economy, he got this result: wage inequality increased between 1980 and '86 (as other researchers have found), but then stayed more or less the same through 1995.

This finding is not necessarily at odds with other, seemingly contradictory trends. For example, the earnings gap between the educated and the less educated appears to have widened since the mid-1980s. But it has been offset by the narrowing wage gaps between men and women, and between blacks and whites.

"Trends in inequality turn out to be highly sensitive to the definition of earnings and the sample of workers used," Lerman points out. An Organization for Economic Cooperation and Development publication shows that between 1979 and 1991, earnings inequality in the United States grew among full-time, year-round workers by nearly 18 percent, but decreased by one percent among all workers, and declined by 11 percent when measured against the working-age population.

Lerman's conclusion: "Earnings inequality did increase for some groups of workers," and certain forces, such as trade and technology, may have had an impact on the overall situation. But in the U.S. labor market as a whole, the net effect—contrary to the conventional wisdom—has not been higher wage inequality.

SOCIETY

Johnny's Grades Aren't So Bad

"Are U.S. Students Behind?" by Gerald W. Bracey, in *The American Prospect* (Mar.–Apr. 1998), P.O. Box 383080, Cambridge, Mass. 02238.

Ever since a federal government report 15 years ago warned about a rising tide of mediocrity in the nation's public schools, reformers have pointed with alarm to the poor performance of American students in international comparisons of test scores.