vious 16 years, mostly from low-wage countries. To economists gauging income inequality, Lerman argues, things look worse than they should, because these low-income folk don't show up in their 1979 base year measurements. But they do appear in later measurements, dragging the averages down.

Lerman's solution is to estimate the immigrants' wages in their home countries, then add them into the base year (1979) calculations. Instead of falling by 1.4 percent between 1979 and 1996, he finds, the median wage rate for all workers *increased* by 5.6 percent. And instead of the huge 16.6 percent growth in "inequality," there was a 4.7 percent *decrease*. (In this measure of inequality, the wage rate for the top 10 percent of earners is compared with the wage rate for the bottom 10 percent.)

Among nonelderly *male* workers, however, the median wage rate ($16 an hour in 1979) still declined, albeit by a lesser amount (5.4 percent, instead of 10.4 percent). Even so, the "inequality" ratio for the male workers, rather than increasing by 22.2 percent, dropped by 1.6 percent. According to a 1997 analysis, immigration was responsible for as much as 55 percent of the relative wage decline experienced by high school dropouts and other low-wage workers.

But immigrants' own wages have more than doubled—"more than enough," Lerman says, "to offset relative wage losses of other workers at the low end of the wage spectrum." And when the immigrants' "rapid wage gains" are taken into account, he concludes, "most of the estimated rise in wage inequality disappears."

A New Adam

"Adam Smith: Critical Theorist?" by Keith Tribe, in *Journal of Economic Literature* (June 1999), American Economic Assn., 2014 Broadway, Ste. 305, Nashville, Tenn. 37203.

Adam Smith emerges from recent historical scholarship as a moral philosopher and a cultural critic.

Adam Smith (1723–90), the father of modern economics, has long been seen as a prophet of free markets and free trade. In recent decades, a new "historical" Smith has emerged, writes Tribe, an economist at Keele University, in the United Kingdom. But when revisionists turn Smith into a moral critic of modern capitalism, he contends, they go too far.

"Adam Smith is conventionally thought to have provided an account of the economic path to human progress by demonstrating how market rationality arises out of the impulses of individuals driven by their own passions," Tribe says. Neglected, however, was Smith's role "as an analyst of commercial society, ethics, and social progress." Now, thanks to Donald Winch's *Adam Smith's Politics* (1978), Vivienne Brown's *Adam Smith's Discourse* (1994), and other recent studies, Smith's place in the Scottish and European Enlightenment has been emphasized. His arguments in *The Wealth of Nations* (1776) have come to be viewed in the context of an 18th-

century debate on commerce and civilization—and seen that way, says Tribe, they appear "remote from the 'economic individualism' so often attributed to him."

In *The Theory of Moral Sentiments* (1759), Smith employed his famous "invisible hand" metaphor, writing: "The rich only select from the heap what is most precious and agreeable. They consume little more than the poor, and in spite of their natural selfishness and rapacity . . . they divide with the poor the produce of all their improvements. They are led by an invisible hand to make nearly the same distribution of the necessaries of life which would have been made, had the earth been divided into equal portions among all its inhabitants." Economists have usually interpreted this to refer to the way in which markets and the price mechanism produce the best possible distribution of goods, but Brown—who views Smith's works in the light of Stoicism and 18th-century rhetoric—gives it a different reading: that Smith is endorsing a traditional Stoic idea that the distribution of material goods has nothing to do with the distribution of happiness. Even if she is right, Tribe notes, that does not invalidate the common understanding of Smith's "invisible hand" view of markets.

Smith's argument, however, has often been linked with the "Private Vices, Publick Benefits" paradox originated some 50 years before by the philosopher Bernard Mandeville, who believed that utterly unrestrained self-interest produced social gains. Smith, though, held a different view, Tribe says. "The Smithian conception of self-interest is not an injunction to act egoistically and without moral scruple, safe in the knowledge that by doing so the public good would somehow or other result: it is embedded within a framework of social reciprocity that allows for the formation of moral judgment." Indeed, Tribe says, Smith's invisible hand metaphor was "an allusion to the manner in which self-interest and sociability combine to render commercial society virtuous *and* prosperous."

Some revisionists, such as Spencer J. Pack and Patricia Werhane, have gone too far, trying to turn Smith completely upside down, Tribe says. Pack, in *Capitalism as a Moral System: Adam Smith's Critique of the Free Market Economy* (1991), offers "what Smith would write if he were alive today, not what he did write in the 18th century," while Werhane's efforts, in *Adam Smith and His Legacy for Modern Capitalism* (1991), "founder on the lack of evidence for her case."

"Smith certainly recognized that, while commercial societies were powerful civilizing forces, not all aspects of their development were positive," Tribe observes. But that hardly makes him a 20th-century critic of modern capitalism.

The Good Luck Economy

"Is Inflation Dead?" by Roger E. Brinner, in *The New England Economic Review* (Jan.–Feb. 1999), Research Dept., Federal Reserve Bank of Boston, P.O. Box 2076, Boston, Mass. 02106–2076.

The American economy has lately seemed to defy the economists' gloomy wisdom that a falling rate of unemployment eventually leads to a rising rate of inflation. Employers, the theory says, start competing for scarce labor by offering higher wages. The last few years have brought both very low unemployment (under five percent) and declining or steady price inflation. Is this because workers, more insecure perhaps because of the well-publicized layoffs of the early 1990s, have become reluctant to demand higher wages? No, argues Brinner, chief economist of the Parthenon Group, a Boston-based consulting firm. The happy situation today is due simply to good luck.

"Inflation is not dead," he asserts. Workers' *real* wages have been rising faster "in response to low unemployment, just as in past decades." While nominal wage inflation remained relatively stable in 1997 and '98 at around three to four percent, real wage inflation began rising in late 1996.

If that is so, why haven't prices been following suit, as employers seek to cover the higher costs that rising wages represent to them? The answer, Brinner says, is that price inflation has been held down by some fortunate "supply shocks." These include:

• Falling oil prices. "After rising sharply in