stability of Ukraine, and access to Caspian oil—interests that warrant deep Western engagement."

Russian membership, of course, would alter the character of the alliance, which was formed a half-century ago to counter the Soviet threat to Western Europe. But that danger no longer exists, notes Kupchan. He formerly opposed enlargement because it would needlessly irk Russia, would resurrect the dividing line between Europe's west and east, and ignored the need to fundamentally redefine the organization. "NATO must transform itself if it is to remain relevant," he writes. "Its focus on defending the territory of members needs to give way to an emphasis on peacekeeping and on deepening cooperation among former adversaries."

As NATO is thus transformed, Europe must take up more of its own security burden, Kupchan says. In the long run, he believes, "a more balanced relationship between the United States and Europe, and a European security order that is more European and less Atlantic, hold out the best hope for preserving a cohesive transatlantic community."

ECONOMICS, LABOR & BUSINESS

A New Age of Productivity?

A Survey of Recent Articles

U.S. labor productivity has been growing at an average annual rate of nearly two percent since early 1995—and even faster in recent quarters. For some prophets of the Information Age, that rather dry sentence is like the sun at long last breaking through the clouds of economic statistics. *Finally*, proof that the oft-heralded "new era" has arrived!

Most economists, however, remain skeptical. Daniel E. Sichel, a senior economist with the Federal Reserve System, concedes that the recent productivity performance raises "the tantalizing possibility" that businesses are finally reaping the long-awaited benefits of information technology. But maybe not.

Sichel—one of seven authors who address the subject of productivity in *Business Economics* (Apr. 1999)—detects a "sharp increase in the contribution of computer hardware to output growth" in recent years, but believes that this may well be only "a transitory response" to a good economy and tumbling computer prices, which encourage corporations to buy more computers.

The recent acceleration in the growth of productivity, maintain Congressional Budget Office economists Robert Arnold and Robert Dennis, is partly the result of recent revisions in the Consumer Price Index to prevent overestimates of inflation. Indirectly, say Arnold and Dennis, those revisions probably boosted measured productivity growth by between .3 and .4 percentage points. They, too, point to the transitory effect of a flush economy.

Despite all the "new era" talk, Arnold and Dennis observe, "the vaunted upturn is far from bringing us back to the high productivity growth of the 1950s and 1960s." Between 1947 and 1973, that growth averaged 2.7 percent a year; between 1973 and 1998, 1.1 percent. The "slowdown," note Arnold and Dennis, may actually represent a return to more normal conditions.

New (Economic) Age types often point to the healthy corporate profits of recent years despite only modest price increases, observe economic consultants Susan C. Lakatos and Jason Benderly. "Corporate restructuring and technological advancement (in particular, the nearly universal adoption of personal computers)" are said to be the source of productivity gains. If that were so, the authors say, then large corporations, which have been "on the leading edge of the restructuring and technology revolutions," should collectively outperform the economy. The large corporations in the Standard & Poor's 500 Stock Index have indeed enjoyed dramatic growth in profits in recent years—but no better than that of other companies. The big increase in profits, Lakatos and Benderly believe, has come from falling interest rates and the abandon-

ment of traditional health insurance benefits in favor of health maintenance organizations and other less costly alternatives. Alas, "both of these shifts appear to have largely run their course."

To some extent, those who talk of a "new era" or "new economy" may just be dazzled by all the "new" products now available, suggests Jack E. Triplett, a Visiting Fellow at the Brookings Institution. Many of these new products and services—from medical goods to financial services—enhance productivity in ways that aren't captured in statistics.

But what is important is not the number of such improvements but their *rate* of increase, Triplett points out. The American grocery store seemed a spectacle of abundance in 1994. It was stocked with 19,000 items, compared with 9,000 in 1972. But a 1948 store stocked 2,200 items, Triplett notes; the 1948–72 rate of increase was nearly twice the 1972–94 rate. The real "golden age" of abundance (at least in grocery stores) is behind us.

Even so, Triplett believes that the computer is having a significant impact on productivity *in certain industries*—including financial services, wholesale trade, business services, equipment rental and leasing, insurance, and communications. But the "output" of these industries is generally hard to measure, and because they sell mostly to other businesses, the impact of their productivity is diffused. "Even if productivity growth in these computer-using industries were tremendous," he notes, it would not greatly increase overall national productivity. The New Age may be here, it seems—but not for everyone.

When Crime Pays

"Market Wages and Youth Crime" by Jeff Grogger, in *Journal of Labor Economics* (Oct. 1998), 1101 E. 58th St., Chicago, Ill. 60637.

During the 1970s and '80s, the wages paid to young men fell, while their arrest rates rose. There's a little-noticed connection, contends Grogger, an economist at the University of California, Los Angeles.

It's no secret that young men are far more prone to crime than other groups. In a 1980 national survey, nearly one-fourth of the men aged 17 to 23 who were neither in school nor in the military admitted earning money from crimes committed the previous year. Ninety-five percent of the criminals also worked, but less than their upright peers, and their legitimate earnings for the year were about 11 percent less.

From his analysis of the survey data, Grogger calculates that a drop (or rise) in wages results in a roughly similar increase (or decline) in youthful participation in property crime. Thus, if wages, adjusted for inflation, fall by 20 percent, youth crime should go up 20 percent. And indeed, he points out, for men aged 16 to 24, real wages fell 23 percent after the mid-1970s, while arrest rates between the early 1970s and late 1980s went up 18 percent. (However, the decline in wages was not the only factor, he notes, "as evidenced by increases in arrests among adults, who generally experienced smaller declines in real wages.")

Interestingly, Grogger finds that education and marital status seem to have no significant effect on youthful participation in crime. But past experience on the wrong side of the law, perhaps enhancing criminal "productivity," appears to make such participation more likely. So does having a brother who is a criminal (and who therefore can show one the ropes).

Wages not only affect the crime rate among young men but also help to explain two well-known crime phenomena, Grogger finds. "Blacks typically earn less than whites, and this wage gap explains about one-fourth of the racial difference in criminal participation rates," he says. In addition, "wages largely explain the tendency for crime to decrease with age." Since wages generally rise as the worker grows older and gains more experience, turning to crime becomes correspondingly less attractive. Though Grogger does not say so, the solution to America's crime problem now seems obvious: pay raises all around!