Yet the threat to the United States is real, O'Hanlon notes. The bipartisan Rumsfeld Commission reported in 1998 that North Korea, Iran, or Iraq might soon develop a missile that could threaten U.S. territory. Later that year, North Korea launched a test multistage missile over Japan, and Pyongyang is reportedly working on another missile which might be able to strike the United States with a nuclear-weapon-size payload.

Potential enemy countermeasures need not be decisive, O'Hanlon says. The United States also "could develop interceptors to hit long-range enemy missiles right after they are launched," destroying them "before they ever left the atmosphere and got a chance to dispense warheads and decoys. The interceptors could be deployed near the Korean Peninsula, the Middle East, or other trouble spots"—and probably wouldn't bother Moscow much, "since the defense would not work against missiles launched at North America from the interior of Asia." Even so, this "light" defense itself could provide some protection against "rogue" states.

But the critics are right to worry about Moscow's reaction to *national* missile defense, O'Hanlon says. "Only with a broader arms control and Russia policy in place," he concludes, "can the United States get serious about [it] without jeopardizing nuclear security."

ECONOMICS, LABOR & BUSINESS

Doing Better, Not Just Good

"Philanthropy's New Agenda: *Creating Value*" by Michael E. Porter and Mark R. Kramer, in *Harvard Business Review* (Nov.–Dec. 1999), 60 Harvard Way, Boston, Mass. 02163.

Seeking to improve education, but limited by its small size, the Philanthropic Ventures Foundation (PVF), of Oakland, California, gives thousands of schoolteachers in its region modest ($500) grants every year for badly needed classroom materials. And it doesn't burden them with paperwork: teachers simply fax their requests, and get an answer within an hour, and a check within 24. Though the foundation is tempted to try to do good in many other ways, it resolutely sticks to its self-defined mission.

That makes PVF "a perfect example," assert Porter, a Harvard Business School professor, and Kramer, president of a capital management firm and a founder of the recently formed Center for Effective Philanthropy, of what a charitable foundation can do when it sets clear goals and strategies. Sound obvious? Most of America's 44,000 foundations don't do it, the authors say, instead contenting themselves with giving out grants for assorted worthy purposes, spreading their resources too thin, and, worst of all, failing to try seriously to measure how much social bang for the buck they are getting. Nor, despite much rhetoric, Porter and Kramer contend, do foundations give much support to potentially high-impact research. In the late 1950s and early 1960s, the Ford and Rockefeller foundations jointly sponsored research that led to development of new strains of wheat and rice—and millions of the world's poor benefited. The Pew Charitable Trusts recently created a center to study global warming. But less than nine percent of foundation grants go for research, and most are in basic science and medicine.

Foundations have seen their assets mushroom in recent decades, to more than $330 billion, but they annually give, on average, only 5.5 percent to charity—just half a percentage point above the legal minimum. They invest the rest for financial returns—and, presumably, future benefit to society.

Because foundations are largely free of the political pressures at work on government, and have the time and expertise that private individuals usually lack, the authors argue, they could produce more social benefit. But the foundations "fall far short of their potential," say Porter and Kramer.

They scatter money among worthy causes: "Fewer than nine percent of foundations make 75 percent or more of their grants in a single field," the authors note. They fail to measure the results of their giving.

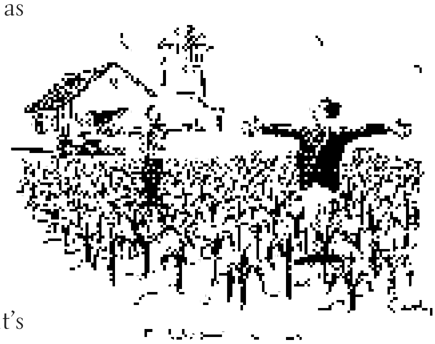
If foundations did have evidence of success, the authors point out, they could leverage successes by encouraging other donors, via matching grants or in other ways, to support the more effective recipients. But today, matching grants account for only four percent of all foundation grants. More leverage could be gained by becoming "fully engaged" partners with grant recipients. The David and Lucile Packard Foundation, for instance, spends $12 million a year aiding nonprofits in "management, planning, restructuring, and staff development."

Until foundations "meet their obligation to create value," Porter and Kramer maintain, they will continue to exist "in a world where they cannot fail . . . [and] also cannot truly succeed."

Overqualified Workers

"Conflicting Signals: The Labor Market for College-Educated Workers" by Jerry Gray and Richard Chapman, in *Journal of Economic Issues* (Sept. 1999), 226 Ayres Hall, Univ. of Tennessee, Knoxville, Tenn. 37996–1320.

What's going on here? College graduates have sharply increased their earnings relative to their less educated peers in recent decades—suggesting there's a *shortage* of college-educated folk. Yet at the same time, more and more college graduates have been working as sales clerks and in other lower-level jobs—suggesting there's a *surplus* of college grads. Some economists [see *WQ*, Winter '98, pp. 125–126] say that some young folks possess sheepskins but still lack "functional literacy"; it's the other college graduates who are getting the higher wages. Gray and Chapman, economists at Willamette University, Salem, Oregon, and Westminster College, Salt Lake City, Utah, respectively, have a different explanation.



Most of the growing wage "premium" for college graduates in recent decades reflects the worsened situation of those without bachelor's degrees, not the improved situation of those who have them, they argue. About 30 percent of prime-age workers now hold college degrees. Earnings of college graduates rose only 2.4 percent between 1979 and 1989, while earnings of high school graduates plummeted 16.9 percent.

Economists usually depict the U.S. labor market as very flexible, with wages and the jobs available fluctuating with the supply of labor. Drawing on economist Lester Thurow's work in the early 1970s, Gray and Chapman argue instead that wages and the array of jobs available are relatively fixed, at least over the short term. There are "high school" jobs, such as sales clerk, and "college" jobs, such as computer programmer. Since employers assume that better-educated workers will cost less to train, these are more attractive. As the number of workers with bachelor's and advanced degrees increases, say Gray and Chapman, some college grads start to take the better high school jobs. Slowly, the college graduates push the degreeless down the ladder, forcing them to relinquish the better-paying high school jobs.

If this is true, Gray and Chapman say, then one of the classic American cures for inequality, enhancing opportunity by helping people get a college education, is actually serving to *increase* inequality. They believe that only "activist demand management in labor markets" by government, of a type not seen since World War II, holds out hope of reversing the tide.