such as the Federal National Mortgage Association (Fannie Mae), which have Washington's unspoken guarantee behind them. If the corporations succeeded in claiming this role, Wojnilower says, they would have the ability to borrow and lend capital at the cheapest rates around. Inevitably, he fears, Congress would widen the permissible scope of these corporations' lending (currently restricted mostly to home mortgages), producing dangerously large "universal banks."

What to do? The Treasury could continue issuing securities if Congress stipulated that the proceeds, instead of being used to fund government operations, were to be lent to carefully designated "financial intermediaries." How much should the Treasury borrow? That, Wojnilower says, should be left to the Federal Reserve.

The Economics of Creativity

"Economics and the New Economy: The Invisible Hand Meets Creative Destruction" by Leonard I. Nakamura, in *Business Review* (July–Aug. 2000), Federal Reserve Bank of Philadelphia, Dept. of Research and Statistics, 10 Independence Mall, Philadelphia, Pa. 19106–1574.

For those persuaded that the United States has a "new economy," the watchword—taken, ironically, from an *old* economic theory—is "creative destruction," as former goods and livelihoods are replaced by new ones. Creativity, and the profits won by entrepreneurs who have it, are what make the capitalist system go, economist Joseph Schumpeter (1883–1950) thought—and the wealthy young wizards at Microsoft and elsewhere may be proving him right. But to find out if it's really time to wave goodbye to Adam Smith's "invisible hand" and welcome "creativity" as the engine of progress, economists must try harder to measure that elusive quality, argues Nakamura, an economic adviser in the Philadelphia Fed's research department.

Creativity is nothing new, of course. Even when Smith was writing his *Wealth of Nations* (1776), Nakamura notes, inventors and other "creative" folk had an economic impact. "But the flow of payments to creative work was minuscule compared with those that flowed to the labor, land, and capital that directly produced products." Economic progress came naturally from competition and wider markets, Smith believed. Taking their lead from him, neoclassical economists celebrate perfect competition and regard creativity as beyond the scope of economic theory.

Schumpeter, however, in his masterwork, *Capitalism, Socialism, and Democracy* (1942), took a different view, Nakamura writes. "He argued that what is most important about a capitalist market system is precisely that it rewards change by allowing those who create new products and processes to capture some of the benefits of their creations in the form of short-term monopoly profits. Competition, if too vigorous, would deny these rewards to creators and instead pass them on to consumers, in which case firms would have scant reason to create new products." In this view, governments should encourage innovation by granting entrepreneurs temporary monopolies over the fruits of their creative efforts. That is the reasoning behind such things as patents and copyrights.

The Schumpeterian view may be "a better paradigm for the current U.S. economy," says Nakamura. Most workers are no longer engaged in direct production of goods and services, but in white-collar jobs, he points out. "Managers, professionals, and technical workers, who are increasingly involved in creative activities," now make up 33 percent of the work force, almost double the proportion in 1950. There are six times as many "creative professionals": Scientists, engineers, architects, writers, designers, artists, and entertainers now number 7.6 million.

It is "inherently difficult" to measure the economic value of creativity, Nakamura notes. Many existing economic measures implicitly assume perfect competition, in which creativity has no economic value at all. Official statistics thus "understate nominal output, savings, and profits."

Some technical measures of U.S. economic growth are being revised (to reflect, for instance, recognition of computer software as an investment). But until the process is much further along, Nakamura concludes, it will be hard for economists to tell whether "creative destruction" is all that it's currently cracked up to be.

SOCIETY

The End of the 'Colortocracy'

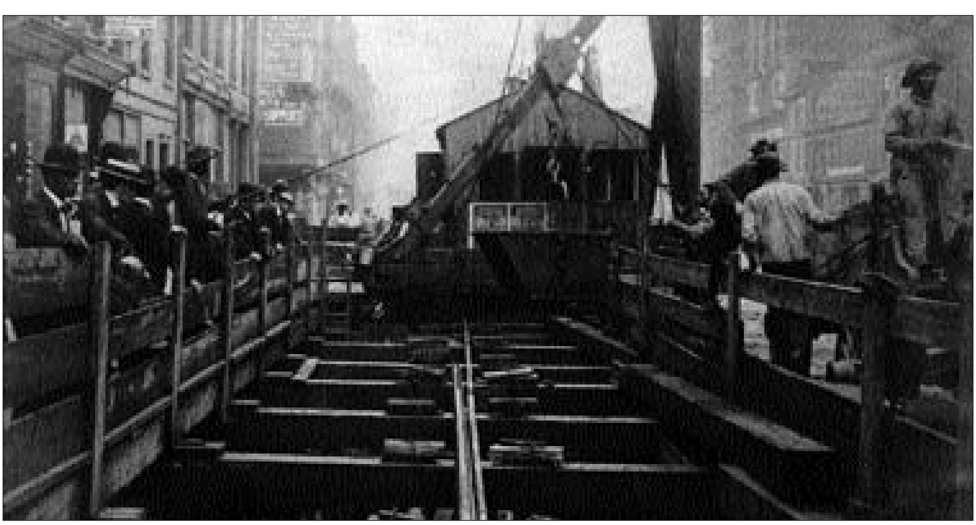
"The Emerging Philadelphia African-American Class Structure" by Elijah Anderson, in *The Annals* (Mar. 2000), American Academy of Political and Social Science, 3937 Chestnut St., Philadelphia, Pa. 19104.

Affirmative action and other civil rights measures have done more than bring many blacks into the American mainstream, argues Anderson, a sociologist at the University of Pennsylvania. They also have disrupted the old "castelike" class structure within the black community in Philadelphia and other cities, rendering longstanding distinctions based on shades of skin color less important.

Since the time of slavery, Anderson observes, variations in shades of skin color have made a difference within the black community. An old folksaying put it this way: "If you're light, you're right; if you're brown, stick around; but if you're black, get back."

In *The Philadelphia Negro* (1899), the first case study of an African-American community in the United States, black sociologist W. E. B. Du Bois discerned four classes: On top, Anderson notes, were the well-to-do: light-skinned doctors, lawyers, and others, whose "relatively privileged ancestors were the offspring of slaves and slave masters." Next came an emerging middle class of schoolteachers, postal workers, storekeepers, and ministers, whose skin color was "more brown, sometimes even dark." Below that group was "the solid working class," made up of people, generally migrants from the South, who "tended to be dark-complexioned." Finally, at the bottom of the class structure, says Anderson, were "the very poor who worked sporadically if at all: Du Bois's 'submerged tenth.' "

"One of the most unappreciated but profound consequences" of the civil rights policies intended to promote black equality with whites, Anderson maintains, was "the destabilization" of the castelike system within black society. By giving the same opportunities to dark-skinned blacks as to light-skinned ones, affirmative action policies reduced the relatively privileged position of the light-skinned



The Library Company of Philadelphia

The social gap that divided the onlooking black Philadelphia gentlemen from the black workmen was as wide as the subway tunnel that was under construction on Market Street in 1904.