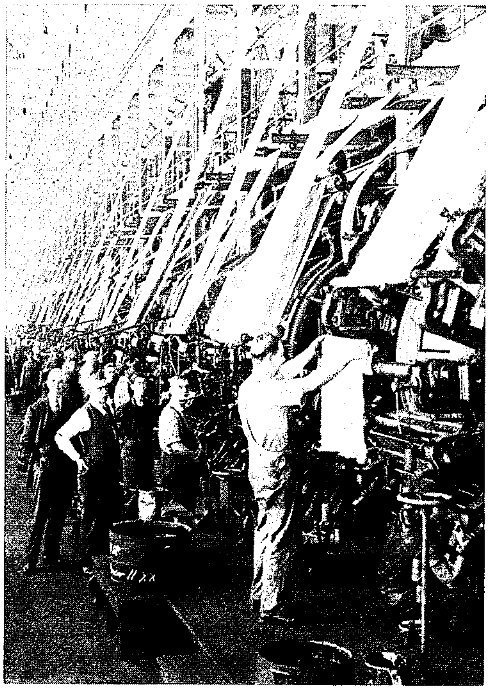
ECONOMICS, LABOR & BUSINESS



Britain built the first modern cotton mill in 1771. This 1916 photograph shows managers and workers in the "printing room" of a large textile mill in Lawrence, Mass.

Worker efficiency, Clark argues, is "determined by the local environment." For example, in some less-developed countries, workers refuse to increase their productivity for fear of increasing unemployment. Indian mill hands during the 1920s refused to operate more spindles because they did not want to deny jobs to unemployed countrymen. Indian workers, wrote one American observer, "cannot be persuaded" to work harder "by any exhortation, ambition, or the opportunity to increase their earnings."

Novelties

"Gross National Products" by Robert A. Mamis, in *Inc.* (Apr. 1987), 38 Commercial Wharf, Boston, Mass. 02110.

The novelty products industry in America is thriving. Chattering teeth, Slinkies, Wacky Wallwalkers, and other novelties are steady sellers. Yet the family-owned firms which build novelties are threatened by cheaper Far East imports and rising production costs.

Many novelty products, says Mamis, an *Inc.* senior writer, sell well for generations. The Joy Buzzer was perfected by 1928. The Slinky was invented in 1943, when naval engineer Richard James saw a torsion spring slink off a shelf. Graham Putnam, chief executive officer of Fun Inc., says he wants to manufacture products that will have a "steady [sales] volume year in and year out."

American novelty products face stiff foreign competition. For example, most of the 400,000 whoopee cushions sold each year are made overseas, because hand-crafting the cushion bladders is labor-intensive. Inventor Ken Hakuta packaged his Wacky Wallwalkers in South Korea because U.S. packaging would have added nearly 20 percent to the cost of his product.

U.S. novelties manufacturers hope to survive through superior technology. Fun Inc. uses ultrasonic welding equipment to manufacture its renowned Talking Teeth. S. S. Adams Co. replaced its Joy Buzzer with less costly foreign versions after the patent expired in 1960. Faced with declining sales due to the "inexplicable junkiness" of imitations, the company reintroduced its original zinc-cast model in 1985.

Novelty manufacturers are also selling their technological expertise to other businesses. James Industries, producer of the Slinky, has also made coiled springs for Xerox. The chemical component used in Wacky Wallwalkers may soon provide a sticky coating for the tops of surfboards and the fingers of gloves worn by football wide receivers.

Most novelty firms' executives rely on their own instincts to create new products. Ken Hakuta, however, has set up a toll-free hot line to give advice to would-be novelty inventors. The next big seller, Hakuta says, will be "something you look at and go, 'Wow!'"

Too Much Housing?

"Dividing Up the Investment Pie: Have We Overinvested in Housing?" by Edwin S. Mills, in *Business Review* (Mar.-Apr. 1987), Federal Reserve Bank of Philadelphia, 10 Independence Mall, Philadelphia, Penn. 19106.

To most Americans, a house is a place where people live. But to economists, a house is an investment, which, like a savings account, accumulates and preserves capital for future use.

The current tax code provides many advantages for people who invest in their own homes. Mortgage and real estate taxes are deductible, and homes (for tax purposes) depreciate faster than other buildings. The federal government directly subsidizes homeowners by providing reduced-interest mortgages as well as low-cost housing for military personnel.

Mills, a visiting scholar at the Federal Reserve Bank of Philadelphia, believes that tax breaks and subsidies have created an imbalance. "The U.S. economy," Mills says, "has overinvested in owner-occupied housing relative to industrial and other kinds of capital."

A housing investment yields two kinds of returns: a "private return," or profit to the investor, and a "social return," the amount of new capital produced by the investment. While the private return from housing is competitive with other investments, the "social return" is not. Because Americans "overinvest" in housing, more homes are built than are necessary, resulting in lower prices for homes and comparatively lower rates of return for the investor. Mills calculates that, in 1983, housing was only 55 percent as efficient at producing capital as were nonhousing investments.

Suppose that capital was distributed as efficiently as possible by reducing the capital allocated to housing from 32 percent (the 1983 figure) of