ECONOMICS, LABOR & BUSINESS

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 total investment to 24 percent. The drop in construction of new houses and apartments would boost housing costs by 28 percent. But the reallocation of capital to better uses (e.g., new plant and equipment) would increase wages by 13 percent and the gross national product by 10 percent, while cutting interest rates from eight to seven percent. Because income from earnings is more equally distributed than income from property, according to Mills, "the move to a socially efficient capital allocation could also reduce income inequality."

While many tax breaks for housing were eliminated in the Tax Reform Act of 1986, most, including the mortgage interest deduction, remain. The fall in marginal tax rates due under tax reform, Mills concludes, will make housing deductions less attractive, thus increasing the "social return" of future housing investments.

SOCIETY

The Back Alley Myth

"Good News for the Fetus" by Ian Gentles, in *Policy Review* (Spring 1987), 214 Massachusetts Ave. N.E., Washington, D.C. 20002.

Many Americans who favor abortion often make two related arguments: Women who become pregnant against their wishes, they say, will have an abortion whether it is legal or not; prohibiting women from having legal abortions will only drive them into the unsafe hands of back-alley butchers.

But Gentles, research director of the Human Life Research Institute in Toronto, Canada, believes that both of these assertions are untrue.

Abortions, says Gentles, became safe long before they became legal. The number of maternal deaths resulting from illegal abortions in the United States, Britain, and Canada, he argues, has never been high, and had been decreasing steadily since long before the U.S. Supreme Court ruled the procedure constitutional, within limits, in 1973. In 1940, there were fewer than 350 deaths in the United States resulting from abortion; on the eve of the Court's decision, the figure stood between 20 and 25.

Why did abortion become safer? Gentles credits the discovery and increasing use of sulfonamides, penicillin, and other antibiotics that abortionists, most of whom were qualified physicians, employed. "The vast majority of [illegal] abortions," observes Gentles, "were conducted by doctors trying to make some extra money on the side. These doctors had access to the latest in medical technology and put it to use."

Since 1971, abortion has become increasingly common. Citing research conducted by Barbara Syska, Thomas Hilgers, and Dennis O'Hare, authors of a study published in 1981, Gentles maintains that the number of illegal U.S. abortions in 1967 was probably no more than 135,000. Even if that figure were doubled or tripled, it would still fall far short of the 1.5 million U.S. abortions that Planned Parenthood's research agency, the Alan Guttmacher Institute, estimates now take place every year.