Autos are increasingly designed in one nation and built in another. The Volkswagen Fox is built in Brazil; Ford's Mercury Tracer, designed by Mazda in Japan, is manufactured in Mexico.

the design and engineering expertise to successfully challenge Japanese, European, or American car builders. Only the South Korean firm of Hyundai will be able to be a "global automaker," challenging existing Japanese, European, and American rivals. Other new car builders "cannot survive without affiliating with a Japanese or Western partner."

A Southern Economy?

"The Economic Revolution in the American South" by Gavin Wright, in *The Journal of Economic Perspectives* (Summer 1987), Princeton Univ., Princeton, N.J. 08544.

Has the American South had a separate economy? Wright, a Stanford University scholar, argues that the Southern economy remained a distinct phenomenon until after World War II, when changing demographics and New Deal legislation caused Southern wages to rise to national norms.

Until the Civil War, slavery separated the South from the rest of the national economy, filling the jobs that would otherwise be taken by immigrants or eliminated by mechanical improvements. The war left the South with abundant supplies of unskilled labor, but little capital. Southern employers preferred to pay many workers low wages rather than invest in labor-saving improvements. Southern workers—both black and white—earned less than their Northern counterparts. In 1930, for example, farm workers in Iowa earned twice as much as those in Mississippi. The region also lacked immigrants, who might have helped fill the shortage of mechanics and engineers. Foreign-born Americans only accounted for two percent of the South's population in 1910.

Wages in the South began to rise after World War I, when Northern unions and employers united against their Southern low-wage competitors. Union activism as well as campaigns against child labor and night work in the 1920s caused Southern wages to rise. During the 1930s, wages rose further as a result of minimum-wage laws and union pressure.

World War II marked the end of Southern economic isolation. Defense spending and new discoveries of oil and natural gas created thousands of high-paying jobs. The introduction of a successful mechanical cotton harvester caused Southern agricultural employment to fall by 1,000,000 between 1950 and 1959; the displaced workers (mostly black) migrated to "high-unemployment ghettoes" in Northern cities rather than face continuing poverty at home. The departure of these workers caused the *average* Southern wage to rise still higher.

The major reason for the Southern economy's shift, Wright concludes, was that a new breed of Southern politicians refused to continue insularity. State officials now encouraged outside investment, through tax breaks, industrial development bonds, and spending for research parks. After Southern low-wage barriers were ended, the speed of "absorption into the national economy was breath-taking."

Liability Problems

"Injury Litigation and Liability Insurance Dynamics" by Peter Huber, in *Science* (Oct. 2, 1987), 1333 H St. N.W., Washington, D.C. 20005.

The cost of liability insurance has increased sharply in recent years. The price of medical malpractice insurance has risen by 40 percent since 1985; premiums for general liability (accident) insurance have risen by an average of 70 percent, with premiums for some industries (such as toy manufacturing) increasing up to 1,000 percent. The amount of insurance available has dropped even as prices have risen.

Why has liability insurance become so expensive? Huber, a Manhattan Institute senior fellow, believes the price increase is due to the rising awards paid to winners of product liability lawsuits.

"An insurance company," Huber explains, "is a financial lake." The depth of the "lake" is its "reserves"—money or other investments set aside for future claims. Premiums flow into the reserve lake; profits, administrative costs, and claim payments flow out.

Insurance companies create separate reserves for each line of insurance they offer. "Short-tail" forms of insurance—such as health or auto accident insurance where claims are paid within a year after they are submitted—have relatively shallow reserves. Claims against riskier "long-tail" insurance policies (such as malpractice and product-liability insurance) may be made years or decades after the policy was initiated, thus requiring proportionally larger reserves. While auto accident "lakes" may have reserves equalling one to two years' worth of premiums, risky pollution-liability insurance requires up to five years' worth of premiums.

Dramatic rate increases, Huber argues, have largely occurred in "long-tail" liability insurance lines. Although "payouts" to policy-holders in these lines have only risen (after adjusting for inflation) by an annual rate of five