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 to 15 percent, companies have sharply increased reserves to ensure that massive claims can be paid. As rates rise, low-risk customers either switch to a competing firm or abandon the insurance market; as a firm's best customers leave, rates increase for the high-risk customers who remain through a process of "adverse selection."

Capping insurance payouts has had "demonstrable impact" in lowering premiums. Indiana, for example, capped medical malpractice awards in 1975; 10 years later, medical malpractice insurance rates there were 30 to 50 percent lower than in neighboring states. Without such caps, Huber says, premiums will increase if payouts rise. "More liability," he warns, "brings about higher premiums for liability insurance."

Reducing Unemployment

"Bonuses to Workers and Employers to Reduce Unemployment: Randomized Trials in Illinois" by Stephen A. Woodbury and Robert G. Spiegelman, in *The American Economic Review* (Sept. 1987), 1313 21st Ave. South, Ste. 809, Nashville, Tenn. 37212.

Unemployment benefits were originally designed to provide relief to workers laid off from jobs. In recent years, many economists have concluded that such insurance programs prolong joblessness by reducing the pressure on unemployed workers to search for new jobs.

What can be done to alter these trends? Woodbury, an economist at Michigan State University, and Spiegelman, executive director of the W. E. Upjohn Institute for Employment Research, recently conducted a yearlong study of the effects cash bonuses have in reducing joblessness.

The authors studied 12,000 people between the ages of 20 and 55 who registered with Illinois state unemployment offices between July and November 1984. One-third of the claimants were assigned to a control group, one-third were assigned to a program (the "Claimant Experiment") that paid a $500 bonus to a worker who found a new job within 11 weeks and stayed on the new job for four months, and one-third were assigned to a program (the "Employer Experiment") that paid employers $500 if they hired and retained an unemployed person for four months.

Although only 570 of the 4,186 workers in the Claimant Experiment earned a $500 bonus, the average length of unemployment in the entire group fell by more than one week. Unemployment insurance payments made to Claimant Experiment participants fell by an average of $158. The earnings of newly employed workers were not substantially lower than what they had been at their previous jobs, thus suggesting that participants conducted "more-intense job search efforts" rather than quickly accepting low-wage work.

Paying employers a $500 bonus only reduced unemployment among white females. For all other groups, the Employer Experiment had a statistically insignificant effect on both length of unemployment and benefits received. The authors suggest that employers who already plan to hire new workers "have the greatest incentive" to join such bonus programs, reducing their effectiveness.