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**ECONOMICS, LABOR & BUSINESS**


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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 year-long 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.

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Because the results of the Claimant Experiment were “unequivocal and strong,” the authors propose conducting further trials to make cash bonuses more effective. Such trials, they conclude, may result in new schemes “that may effectively reduce unemployment at low or even negligible cost to unemployed workers and to society.”

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**SOCIETY**

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*Learning by the Book*

“How Children Learn Words” by George A. Miller and Patricia M. Gildea, in *Scientific American* (Sept. 1987), 415 Madison Ave., New York, N.Y. 10017.

By the age of 12, the average child learns 5,000 new words each year, or about 13 every day—yet no more than 200 words are taught in a school year. How do children manage to learn so many words on their own? Miller, a psychologist at Princeton, and Gildea, professor of psychology at Rutgers University, believe students learn many new words by reading.

Mastering a word occurs in two distinct stages: first, a student assigns the new word to a category, such as “color” or “food”; later, he starts to recognize distinctions (e.g., the difference between red and pink) among words in a given category.

Indeed, to fully comprehend a new word, the student must find it used



*Computers can enhance children's ability to build vocabulary by letting them see an unfamiliar word used in a definition, a picture, and a sentence. Here, a student learns new words in a lesson drawn from Raiders of the Lost Ark.*