It is tough – make that virtually impossible – to keep up with economic research in public policy. To make it a little easier, we're offering a heads-up on what's new and relevant. Advice from readers (or authors) in the form of e-mail is always welcome.

WHOSE WELFARE?

In the 1980's, liberals argued that any welfare reform measure that would drive millions of unskilled indigents onto the labor market would have draconian consequences. Not only would such a measure cause suffering among welfare recipients, they argued, it would push large numbers of the working poor onto the unemployment lines and drive down the wages of those lucky enough to remain employed. By the time welfare reform was the law of the land, however, the Great American Job Machine was already in high gear and little, if any, of the hypothesized displacement effect has been reflected in the numbers.

What happens next? Tim Bartik an economist at the Upjohn Institute in Michigan, forecasts that by the year 2005, sanctions on long-term welfare recipients will have increased the American labor force by something less than 2 million. That represents just a bit more than 1 percent of the total labor force over a decade – hardly enough to be noticeable in the big picture. But some groups – notably women with few skills – are not apt to escape scot-free. Bartik estimates that in 1997, unemployment among female heads of households would have been a half percentage point lower and wages for that group 2.5 percent higher if welfare reform had not gone into effect.

Not a big deal – unless you happen to be a woman without much education trying to raise a family on one wage. [*"Displacement and Wage Effects of Welfare reform" Upjohn Institute for Employment Research Working Paper, Jan. 1999. Download from www.upjohninst.org.*]

WATER, WATER EVERYWHERE...

It's almost conventional wisdom that, in an age of surfeit of raw materials and falling commodity prices, water will emerge as the key scarce resource for economic development. Maybe. Then again, maybe not. Once water is treated like other marketable commodities and is used efficiently, scarcity often gives way to glut. Indeed, while Canadians mutter grimly about water imperialism from the south and Turkey builds its Middle East policy around water issues, freer markets may make their fears look a bit silly.

A World Bank survey of

water issues in 11 countries by A. Maria Saleth and Ariel Dinar probably won't surprise anyone who has been following the subject closely. It does document, however, the quiet sea change in attitudes, as countries begin to treat water like other useful commodities. Perhaps the most striking developments have taken place in Israel, which has increased the productivity of water in agriculture by 250 percent since reforms were enacted in 1987, and farms began to recycle expensive fresh water. Not surprisingly, the country surveyed with the furthest to go is India, arguably the world's last important bastion of socialism. [*"Water Challenge and Institutional Response: A Cross-country Perspective." World Bank Working Paper 2045, Feb. 1999. Download from www.worldbank.org.*]

Too Few Toxins?

The "Superfund" toxic waste site clean-up program, begun in 1986, remains one of the Environmental Protection Agency's most popular programs. Tidying up the mess left by assorted individuals, corporations and local governments – and then sticking those responsible with as much of the cost as possible – seems like a no-brainer.

There's a catch, though. Well, lots of catches. But the one of most interest to James Hamilton of Duke and Kip Viscusi of Harvard's Kennedy School, is the failure to apply some reasonable cost-benefit test to clean-up efforts. For a sample of 150 Superfund sites examined, they found that in the great majority of cases, the Government spent more than a $100 million to avoid one cancer death.

Is $100 million too much to save a life? That's a hoary debate, with economists generally arguing that safety resources are limited and that spending a lot in one area means less to spend elsewhere. It's worth noting, however, that $100 million is 10 to 50 times more than what people seem to value their lives when they are given the chance to reduce risk – say, by accepting lower wages to avoid riskier jobs.

The more important punch line here is that relatively small sums would save most of the lives potentially lost to exposure to toxins at Superfund sites. Uncle Sam has to pick his targets – and also has to settle for less-than-total cleanups where the last bit of poison is incredibly expensive to remove. [*"How Costly is 'Clean'? An Analysis of the Benefits and Costs of Superfund Site Remediations." Journal of Policy Analysis and Management. Winter 1999. For copies call 212-850-6645.*]

...AND NOT A DROP TO DRINK

Economists are the pushy imperialists of the social sciences, explaining the world in their own terms to whoever will listen. Phillip Cook of Duke University and Michael Moore of Fuqua School of Business at Duke fit nicely into the category with their latest work, a summary of what virtually all economists have to say about alcohol.

Among the research papers they summarize are estimates of the "external" costs of drinking, necessary for devising taxes that internalize these costs, and estimates of the demand for alcohol, necessary for calculating the impact of restrictive measures on the level of alcohol consumption.

You say you're not inter-

When Less is More

How much health care is enough? The debate that roared through the early 1990's has diminished to irritable chatter, if only because neither politicians nor the public could really get their hands around the deeply devisive issue.

These days, the health care debate seems to come down to how many days your friendly neighborhood H.M.O. must allow you to stay in the hospital after a limb is removed.

But David Cutler of Harvard and Elizabeth Richardson of the National Bureau of Economic Research aren't letting go of the big question. The only rational way to decide how much to spend on health care, they say, is to compare the costs and benefits. To this end they estimate something they call health capital – what good health is worth at each point in life – and then compare the likely change in health capital with the cost of a given medical procedure.

An exercise worthy of Mr. Spock, you say? Sure, but the authors do make one point that ought to convince practically anybody. Instead of asking the question of how big the overall medical budget should be, they argue, policymakers should ask how to get more bang for a buck by figuring which expenditures have the highest payoff in terms of increasing health capital. [*"Your Money and Your Life: The Value of Health and What Affects It." National Bureau of Economic Research Working Paper 6895, Jan. 1999. Download from www.nber.org.*]

ested? Wait until the lawyers who did in the tobacco lobby get hold of it. [*"Alcohol," prepared for the forthcoming "Handbook of Health Economics," but available as National Bureau of Economic Research Working Paper 6905, Jan. 1999. Downloadable from www.nber.org.*]

ECONOMIC IMPERIALISTS

For two decades economists have been lecturing environmental policymakers on the basics: the need to apply cost-benefit analysis to environmental issues; the efficiency of market-based solutions over environmental planning.

Believe it or not, says Robert Hahn, the director of the AEI-Brookings Joint Center for Regulatory Studies, the message has gotten through. Hahn's chronicles the rising influence of economics in environmental policy – in particular, the use of private incentives to achieve public goals.

But the going is tough. And Hahn argues that economists are going to have to rethink their disdain for political lobbying if they are to win the big battles down the road. [*"The Impact of Economics on Environmental Policy," AEI-Brookings Joint Center for Regulatory Studies working paper, Jan. 1999. Download from www.aei.brookings.org*]

WELCOME TO NORTH AMERICA

Canada's immigration policy, in striking contrast to that of the United States, gives strong preferences to individuals with marketable skills. A new assessment by David Green, an economist at the University of British Columbia, suggests that it has indeed paid off handsomely. He finds that immigrants are greatly overrepresented in professions and under-represented in semi-skilled and unskilled labor markets in Canada. Equally interesting, immigrants are far more mobile occupationally, moving between occupations and up the labor market ladder.

This evidence only reinforces what commentators have been saying for a long time. Canada's preference system has apparently served the country well, attracting the best and brightest immigrants and discouraging those with little human capital, who are far less likely to assimilate rapidly.

Should the United States imitate its northern neighbor? Alas, United States immigration policy may be so politicized that rational debate over which applicants to admit and when may be beyond the country's capacities. [*"Immigrant Occupational Attainment: Assimilation and Mobility over Times," Journal of Labor Economics. Jan. 1999. For access, e-mail the journal at subscriptions@journals.uchicago.edu.*]

GLASS WALLS

With the end of most forms of legal workplace discrimination against women – and increased enforcement – it has been widely assumed that occupational choices would slowly converge. One place to track the trend is to look at the majors that college students choose. And these show that women are, indeed, moving from education to business majors in vast numbers.

The gender wall is not falling, however, between the "life sciences" on the one hand, and math, physics and engineering on the other, say Sarah Turner of the University of Virginia and William Bowen, the president of the Mellon Foundation in New York.

Why not? Turner and Bowen estimate that high school preparation, as crudely reflected in Scholastic Aptitude Test scores, explain less than half the statistical difference. The rest they attribute to cultural values and perceived labor market expectations – resilient differences in the way men and women look at the world.

"We do not see continuing movement toward gender neutrality in the skills (or credentials) that students take from college," they write. [*"Choice of Major: The Changing (Unchanging) Gender Gap." Industrial and Labor Relations Review. Jan. 1999. For abstract and subscriptions, www.ilr.cornell.edu/depts/ILRrev.*] M

—Peter Passell

Greater Fools

When is the stock market overpriced? When the world runs out of suckers who will pay more than the last set of suckers, say the cynics. Most economists, faced with the thorny question of factoring investor behavior into analyses of financial markets, throw up their hands. But not Robert Shiller of Yale , who has spent much of his career at the intersection of economics and behavioral psychology.

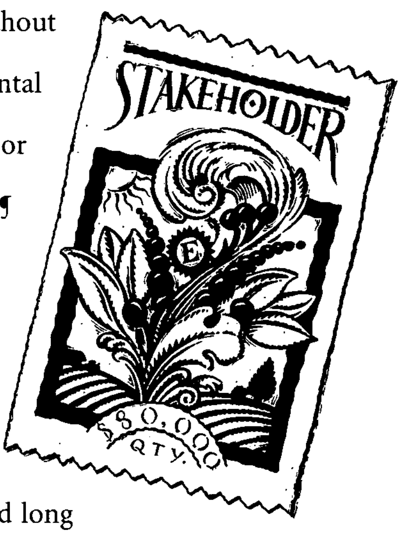
His latest effort, creating indices of financial bubble expectations and investor confidence, are based on a decade's worth of survey material. What to make of the indices is another matter, but plenty of otherwise sensible folks are tantalized by the prospect of being able to explain or predict what seem to be the least predictable events – the speculative bubble. [*"Measuring Bubble Expectations and Investor Confidence," National Bureau of Economic Research Working Paper 7008. March 1999. Download from www.nber.org.*]

The Stakeholder Society

Bruce Ackerman and Ann Alstott offer a neo-liberal alternative to the welfare state.

ILLUSTRATIONS BY SCOTT WRIGHT

It's a lot harder to get worked up – or at least easier to feel sanguine – about economic inequality in America than it was a decade ago. Unemployment is near record lows, the black middle class is expanding, wages are rising and millions have left the welfare rolls without much evidence of serious hardship. Contrast that with continental Europe, which is staring at 20 percent youth unemployment, or Japan, which seems to be reinventing the Great Depression. ¶ But you still don't have to be a weatherman to tell which way the wind is blowing. Technology, international competition and the decline of unions have all conspired to drive a wedge between the financial prospects of the skilled and unskilled, while housing inflation and retirement entitlements negotiated long ago have widened the wealth cleavage between the young and the old. High-income



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