quick—what do Romania and Australia have in common?

Here’s one answer: Female competitors from both countries brought home roughly the same number of medals in the 2000 Olympic Games in Sydney (at 19 and 22 respectively). But that’s not all. Women’s labor participation rate in both countries is about 76 percent of men’s, a ratio higher than roughly three-quarters of all competing nations’.

And it’s no coincidence, either. Research by Tufts University economist Michael Klein shows a significant positive relationship between the performance of a country’s women in international athletic competition and women’s relative participation in that country’s labor market. Controlling for the fact that richer countries produce healthier people and can devote more resources to leisure activities like sports—as well as for population, the country’s commitment to Olympic sports, and other factors—Klein finds that women from nations with female-to-male labor ratios in the top quartile brought home 2.17 more medals on average than their bottom-quartile counterparts in the Olympic Games of 2000.

So why is high labor force participation by women correlated with athletic prowess? Sociologists Judith Treas and Eric Widmer point out that as women’s labor force participation has increased in industrial countries, so has societal approval of nontraditional roles for women. Countries whose women are integrated into the working world are less likely to view female athletes as having overstepped their feminine boundaries and are more likely to give women permission to embrace more traditionally masculine roles in both business and athletics. Sociologist Martha Brady has even suggested that the reverse might be also true—that women’s economic conditions might be enhanced by their participating in sports, which would improve their self-esteem and sense of control over their lives. Whether the causal arrow points in one direction or both, it seems that countries whose women enjoy broad opportunities to work outside the home can bring home the gold—in more ways than one.

—Ashley Simonsen

A bill of (mental) health

Start with rapidly rising treatment costs for depression. Toss in a mandate for better mental health coverage. Drain out the stigma associated with mental illness. Sounds like a recipe for disastrous cost increases in treating depression—that is, unless you have a few other key ingredients on hand.

Insurers were certain they would see skyrocketing costs when Congress passed the 1996 Mental Health Parity Act, a legislative milestone that equalized coverage ceilings for mental health care with those for general medical benefits. Since consumers are particularly responsive to “discounts” on mental health prices, insurers anticipated that more generous insurance packages would prompt more people to seek treatment, and they forecast increases in premiums of 2.5 to 11.5 percent.

And indeed, the number of claims did grow. Columbia psychiatrist Mark Olfson says that the number of people seeking treatment for depression has continued to...
Observations
CONTINUED FROM PREVIOUS PAGE

<< rise since parity was implemented, although the rate of increase has slowed compared with the tripling of patients from 1987 to 1997. But most insurers saw little to no increases in overall costs, suggesting that the cost per patient actually declined. What accounts for this decrease?

Though health network mergers and increased competition may have helped, at least temporarily, managed care—which employers instituted even more aggressively in response to parity requirements—was also a critical factor. An estimated 170 million Americans are now enrolled in these plans, which aim to control costs by reducing doctors’ incentives to over-prescribe treatment. Managed care plans implementing parity saw less than a 1 percent increase in total health care costs, while plans that simultaneously implemented parity and managed care saw cost reductions of 30 to 50 percent.

Managed care also puts pressure on doctors to substitute cheaper treatments for more expensive ones, so doctors are increasingly treating depression with drugs rather than therapy. Although some studies suggest that counseling may actually be slightly cheaper in the long run, “talk therapy” takes much longer to produce results and requires a referral to a specialist. As a result, from 1992 to 1999, spending on psychotropic drugs increased from 22 percent to almost half of outlays on mental health care.

But before you get too cheerful, beware: the savings managed care and antidepressants have achieved may merely represent a one-time cost reduction that cannot be repeated. And the unpopularity of managed mental health care among both patients and therapists has led some companies to loosen up in paying for therapy. Even so, the new economic incentives managed care has created have been key ingredients in keeping the cost of mental health treatment from boiling over.

—Ashley Simonsen

Death of the payphone?

MISS YOUR FLIGHT? Need to call home? You might be lug- ging your bags a lot farther than you used to if you’re looking for a payphone in the airport these days.

“We have cell phones,” explains Phil Orlandella, director of media relations at Boston’s Logan International Airport. Orlandella estimates that the number of payphones at Logan, which rang in at 771 in December of 1999, now stands at about 550—and that number will be “chopped significantly” in the months to come, he said.

Meanwhile, airports are one of the few places left where you can even be sure to find a payphone. Since 1996, over 600,000 have been disconnected nationwide; meanwhile, cell phones have multiplied 11 times since 1993 to about 143 million today. The remaining phone booths now register only half as many calls as they did a decade ago, and payphone owners—including both the Baby Bells and independent service providers—are charging up to 50 cents per local call and $4 for just the first minute of a long distance call to compensate.

But it’s not just cell phones’ convenience that’s driving payphones out of the market. For one, many payphone owners invested in low-quality phones that left customers frustrated by poor service. The phones are also expensive to operate. Although recent regulatory changes have reduced the discrepancy, in the past it has cost payphone providers two to three times more than wireless providers to connect into the phone system. Plus, owners aren’t being compensated for more than one-third of the toll-free and long-distance calls made from their phones because of problems in tracing the calls to the correct service providers.

Payphone operators will have to do more than raise prices if they want to keep their phones profitable. To this end, Verizon recently launched an offer of 10 minutes of international call time for $1 from its payphones, connecting customers to most European countries as well as Canada, China, and Mexico City. With the market for international calling growing at 5 to 13 percent per year, Verizon hopes that these low rates will attract enough customers to make up for lost payphone profits. In Asia, phone companies are experimenting with using old phone booths as pay-per-use cell phone battery recharging stations. And Verizon is installing Wi-Fi transmitters in 1,000 of its payphones in Manhattan this year, providing its customers with wireless access within 300 feet of the transmitter. If these efforts are successful, there may yet be life after death for the payphone. —Ashley Simonsen

Can you hear me now?

Wireless phones are one reason payphones are becoming obsolete.

NUMBER OF PAYPHONES AND WIRELESS SUBSCRIBERS IN MILLIONS, 1984-2002

<table>
<thead>
<tr>
<th>Year</th>
<th>Payphones</th>
<th>Wireless</th>
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<tbody>
<tr>
<td>'84</td>
<td>1,200</td>
<td>10</td>
</tr>
<tr>
<td>'86</td>
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Source: Wintergreen Research and Cellular Telecommunications & Internet Association
Index overstock

The safest path to stock market success, investors have often been told, is to diversify—to invest in different stocks representing the whole market. But by so often choosing index funds, perhaps we are heeding that advice too well.

Unlike typical mutual funds, index funds invest in all the components of a stock index (the Dow Jones Industrials or the S&P 500, for example) and thereby closely duplicate the index’s returns. Because of their inherent diversification and low administrative costs, index funds have skyrocketed in popularity since their 1976 debut.

But a recent study by Randall Morck and Fan Yang finds that stocks included in market indexes may be overvalued relative to similar excluded stocks. Index membership increases the demand for stocks in the index as fund managers and diversity-seeking investors buy more shares. Since the number of shares issued is relatively fixed, the prices of stocks in the index go up.

Worse, Morck and Yang fear that the popularity of index funds caused an “indexing bubble” mirroring the “tech bubble” of the late 1990s. More than just an overvaluation, a bubble could occur if investors bought index-included stocks as much for their perceived propensity to continue increasing as for their underlying value. As the stock prices of firms included in the index increase, demand for those stocks rises, further increasing their price. The authors conclude that in 2001, the values of stocks included in the S&P 500 were as much as 90 percent above those for similarly sized companies not included in the index—a premium far in excess of what would be considered merely “overvalued.”

Normally, investors sell overvalued stocks and buy their undervalued peers, eventually bringing prices back into line. But the popularity of index funds has made this almost impossible. Index funds are still attracting investors even as stock market investment overall has declined in the last three years. As a result, the premium on index funds, though diminished, has persisted. Morck and Yang point out, however, that if investors found alternative ways of diversifying and indexing became less popular, then the prices of a number of prominent stocks could fall sharply. Until then, the prices of indexed stocks will likely continue to command a premium.

—Matt Rutledge

Perspective

Border security in the age of globalization: How can we protect ourselves without losing the benefits of openness? By Peter Andreas

Photographs by Nubar Alexanian

According to conventional wisdom, globalization is about breaking down national borders. Indeed, it is often argued that growing economic integration and interdependence lead to more open borders and more harmonious cross-border relations. President Vicente Fox of Mexico, a leading proponent of this view, took office in December 2000 promoting a bold vision of an open U.S.-Mexico border, including the free movement of labor and the creation of a North American community. Such a proposal would further advance the process of continental integration. With the U.S.-Canada and U.S.-Mexico borders already the two busiest land crossings in the world, U.S.-Mexico trade has more than tripled and U.S.-Canada trade has nearly...