concerns related to the indiscriminate and undisciplined use of these weapons," Troxesll says, "there are equally valid concerns relating to the effectiveness and security of U.S. forces and their ability to accomplish assigned missions throughout the world."

ECONOMICS, LABOR & BUSINESS

Europe's Jobless Blues

"Inequality and Unemployment in Europe: The American Cure" by James K. Galbraith, Pedro Conceição, and Pedro Ferreira, in *New Left Review* (Sept.–Oct. 1999), 6 Meard St., London W1V 3HR, England.

Most economists blame Europe's stubbornly high unemployment rates on rigid wage laws and generous welfare states that discourage workers from looking hard for jobs. They point to the example of the United States, with fewer government protections, more income inequality--and a four percent unemployment rate when the new year began. France's jobless rate, in contrast, was 10.6 percent; Italy's, 11.1 percent; and Spain's, 15 percent. Galbraith, a professor of public affairs and government at the University of Texas at Austin, and his colleagues, both doctoral students, have a different explanation for Europe's plight: insufficient welfare-state generosity. Surprisingly, these analysts, too, look to the United States for inspiration.

"Today, national unemployment rates are systematically *lower* in the richer and more equal countries of Europe where wages are high and social welfare systems are strong," they write. In Sweden, for instance, the jobless rate was only about five percent last December.

A quarter-century ago, unemployment rates in Europe were quite low everywhere. "In the high-income countries, full employment, social democracy and the welfare state prevailed," the authors observe. In low-income countries, such as Spain and Portugal, which "were substantially peasant societies, often with comparatively recent fascist governments," there were "few industrial jobs and few cushions for those who might seek but not obtain them. . . . People stayed on the farm." This has changed. Europe today is "an integrated continental economy." "Inter-regional inequalities" are creating long unemployment lines in the poorer countries. Lacking generous social supports, many people are fleeing the countryside. "Better the dole and the grimy suburb than life in the village or on the farm," note Galbraith and his colleagues.

Europe's high-income countries also have "low-productivity, dead-end, uninteresting jobs, from which people might be seeking to escape," the authors point out. But when all social benefits are included, many of those jobs are well compensated. These countries "provide high minimum wages, buyers for farm produce, jobs in vast public bureaucracies, free health care and higher education. As a result, low-productivity people stay put in their low-productivity jobs . . . growing artichokes in Brittany, crofting in Norway, or raising pigs in the high passes of the Swiss Alps." They usually do not go after "high-productivity" jobs, say the authors, because the higher pay is not high enough, all things considered, "to make the trouble of earning it [seem] worth their while. This is the secret, it appears, of fuller employment in richer countries."

Europe's poorer countries cannot make the needed changes on their own, Galbraith and his colleagues say. Now a *continental* economy, Europe needs a *continental* full-employment policy, "involving [income] transfers not to governments but mainly to individuals and at a common continental standard. . . . [Europe needs] a truly *European* welfare state, with a continental retirement program, 'topping up' of low wages and a euro-valued minimum wage."

"The *comparatively successful* social democracy of the United States" offers a model, the authors aver. It has not only low unemployment but, by their measures, *less* inequality than Europe *as a whole* does. Americans have liberal access to credit, a national social security system, and, since 1994, a rapidly expanding earned income tax credit that erases or vastly reduces the income

taxes of the working poor. They also are spared regressive European-style value-added taxes. "Americans take the low-wage jobs," say Galbraith and his colleagues, "because the [wage] gaps are not in fact that high, and because the after-tax gaps are even lower."

Microfinance, Macrohype

"The Microfinance Promise" by Jonathan Morduch, in *Journal of Economic Literature* (Dec. 1999), American Economic Assn., 2014 Broadway, Ste. 305, Nashville, Tenn. 37203.

Around the world, particularly in Bangladesh, Indonesia, and Bolivia, "microfinance" institutions have sprung up in recent decades to make small, usually collateral-free loans to the poor, enabling them to go into business for themselves. They become textile distributors, street vendors, and furniture makers. Some eight to 10 million households have taken such loans, and there is hopeful talk by the World Bank and others of expanding the total to 100 million by 2005. Advocates tout microfinance as a way of alleviating poverty without permanent subsidies or massive government programs. They claim it is a "win-win" solution, in which both the lending institutions and the poor clients benefit. Morduch, a lecturer at Princeton University's Woodrow Wilson School of Public and International Affairs, urges a more cautious view.

"Alleviating poverty through banking is an old idea with a checkered past," he notes. From the early 1950s through the 1980s, many countries put reducing poverty through the provision of subsidized credit at the center of their development strategies. In nearly all cases, Morduch observes, the result was disastrous. "Loan repayment rates often dropped well below 50 percent; costs of subsidies ballooned; and much credit was diverted to the politically powerful away from the intended recipients."

Mindful of this past, microfinance advocates claim there is a new determination that the programs become financially viable without ongoing subsidies. "Programs typically begin by lending just small amounts and then increasing loan size upon satisfactory repayment," Morduch says, and repayment must start almost immediately. Microfinance advocates also stress the significance of innovations such as "group-lending" contracts. Pioneered by Bangladesh's Grameen Bank, these contracts effectively make a borrower's neighbors cosigners for the loan, thus creating pressures for repayment, even without collateral.

But "the boldest claims [for microfinance] do not withstand close scrutiny," writes Morduch. "High repayment rates have seldom translated into profits as advertised. Most programs continue to be subsidized directly through grants and indirectly through soft terms on loans from donors. Moreover, the programs that are breaking even financially are not those celebrated for serving the poorest clients."

Even the Grameen Bank–which now has more than two million poor borrowers, 95 percent of them women, getting loans that total $30–40 million per month–"would have trouble making ends meet without ongoing subsidies," Morduch says. Though the Bangladesh bank reported "repayment rates above 98 percent and steady profits," it used some nonstandard accounting definitions, was slow to write off loan losses, and treated grants from donors as income. Had it not done that, he calculates, the bank's reported $1.5 million

Grassroots finance: Bangladesh women settle accounts with the Grameen Bank, which backed their small-business ventures.