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.

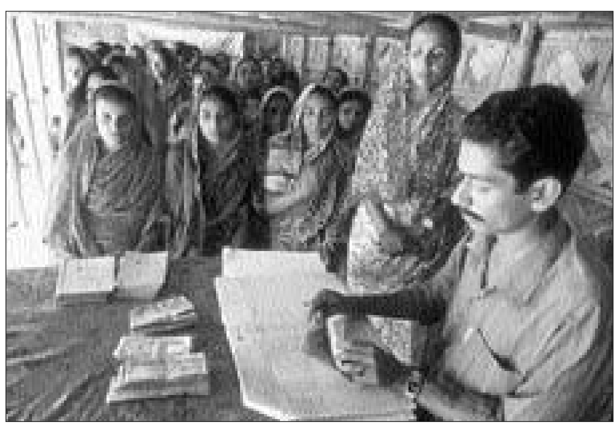
Around the world, particularly in Bangladesh, Indonesia, and Bolivia, “microfinance” institutions have sprung up in recent decades to make small, usually collateral-free loans to the poor, enabling them to go into business for themselves. They become textile distributors, street vendors, and furniture 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.

in profits between 1985 and 1996 would have been $34 million in losses. But so what? he says. “Even if the bank is not the economic miracle that many have claimed, it is not obvious that its failure to reach financial self-sufficiency is in itself a problem,” so long as the donors remain committed and the social benefits outweigh the costs.

Microfinance may well have a role to play in alleviating poverty, Morduch concludes, but, even in the best of circumstances, that role will be limited: helping to “fund self-employment activities that most often supplement income for borrowers.” Making “a real dent in poverty rates,” he suggests, will require increased economic growth and more new jobs.

SOCIETY

When Life Begins

“Abortion and Brain Waves” by Gregg Easterbrook, in *The New Republic* (Jan. 31, 2000), 1220 19th St., N.W., Washington, D.C. 20036.

When the Supreme Court decided *Roe v. Wade* in 1973, medical knowledge about the fetus was surprisingly limited. But that has changed in recent years, and what researchers have learned, argues Easterbrook, a senior editor at the *New Republic*, has important implications that neither pro-life nor pro-choice absolutists are likely to welcome.

The pro-life view, of course, is that life begins when sperm meets egg, producing what scientists call a *zygote*. (Until 1869, however, the Catholic Church held that life began 40 days after conception.) But in the scientific perspective today, “what happens early in the womb looks increasingly like cold-hearted chemistry,” Easterbrook says, “with the natural termination of potential life far more common than previously assumed.” Only about half of all zygotes implant in the uterine wall and become embryos. “Of those embryos that do trigger pregnancy, only around 65 percent lead to live births, even with the best prenatal care. The rest are lost to natural miscarriage. All told, only about one-third of sperm-egg unions result in babies, even when abortion is not a factor.”

It may be possible, writes Easterbrook, “that God ordains, for reasons we cannot know, that vast numbers of souls be created at conception and then naturally denied the chance to become babies. But science’s new understanding of the tenuous link between conception and birth makes a strong case that what happens early in pregnancy is not yet life in the constitutional sense.”

At the same time, however, “it has become increasingly clear that by the third trimester many fetuses are able to live outside the mother, passing a basic test of personhood. Now research is beginning to show that by the beginning of the third trimester the fetus has sensations and brain activity and exhibits other signs of formed humanity.” The legal and moral implications “are enormous,” Easterbrook observes. “After all, society increasingly uses cessation of brain activity to define when life ends. Why not use the onset of brain activity to define when life begins?”

In *Roe*, the Supreme Court said states could prohibit abortion in the third trimester, except when necessary “to preserve the life or health of the mother.” This standard was considered “largely theoretical,” Easterbrook says, because doctors then generally could not perform safe late-term abortions. In later rulings, the high court brushed aside *Roe*’s third-trimester protections, opting instead for the vague standard of fetal “viability.” That has made “almost any late-term abortion permissible,” he notes. An estimated 750 late-term abortions occur each year—less than one percent of all abortions in the United States. Most abortions (89 percent) occur in the first trimester.

With the Supreme Court now preparing to make another abortion ruling, Easterbrook favors dropping the “hopelessly confusing” viability standard for “a bright line drawn at the start of the third trimester, when complex fetal brain activity begins.” That would neither undermine *Roe*’s abortion rights (since no complex fetal brain activity occurs before then) nor “enter into law poignant but unprovable spiritual assumptions about the spark of life.”