Lisa Schiffren

America's Best-Kept Welfare Secret

What are Republicans doing supporting the Earned Income Tax Credit, a 20-year-old, fraud-riddled giveaway that makes AFDC seem positively civilized?

In July 1993, Health and Human Services secretary Donna Shalala announced a major expansion of the Earned Income Tax Credit (EITC) program, which gives cash supplements to people who make too much money to qualify for Aid to Families with Dependent Children—or AFDC, the nation's primary welfare program. Shalala billed it as the keystone of the Clinton administration's plan to reform welfare. Her announcement came despite admissions by the Internal Revenue Service, which administers EITC, that the fraud and error rate in the program was at least 30 percent, and perhaps as high as 45 percent, adding up to $6 billion yearly.

When that ridiculous number became the subject of hearings last year in front of the House Ways and Means [IRS] Oversight Subcommittee, former secretary of the treasury Lloyd Bentsen admitted there had been little or no accountability or monitoring in the program. Clinton administration officials themselves—including Bentsen and IRS commissioner Margaret Richardson—admitted that the fraud rate might be as high as 45 percent. The GAO (General Accounting Office, Congress's main oversight arm) issued a report this past October, citing the astonishing fraud rate. In response, the administration, perhaps fearful of scandal on the eve of the election, dispatched top officials to smooth over and de-emphasize the report, even as they were making it public.

Even while a hotly contested election was underway, with government spending a key issue, the mainstream media devoted almost zero coverage to these public revelations. The only aspect of this scandal that attracted attention—and not much at that—was the revelation that illegal immigrants were eligible for EITC benefits, and hundreds of thousands of them were receiving these cash grants as a gift from American taxpayers. The media failed even to report that prisoners were eligible for it.

One can only guess that this extraordinary example of government malfeasance and lack of accountability with

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taxpayer money got no attention because the EITC is so perfectly camouflaged. The name itself is so eye-glazingly technical that when it appears in print readers pass over it without noticing, assuming that it is tax arcana and not a welfare program. That's why, after almost twenty years, only dedicated policy wonks know the program exists.

Although the EITC will surpass AFDC in cost by 1997, the low-profile program has the kind of bipartisan support that should always make taxpayers wary. It is regarded by both liberals and conservatives with the same uncritical reverence as Head Start—and, like Head Start, its great selling point seems to be that while no one can prove EITC does any long-term good, it doesn't seem to do great harm either. Democrats see it as a way to offer "income assistance" to what used to be called "the deserving poor"—those earning just enough not to qualify for welfare—without having to expand AFDC itself. Republicans like it because giving out cash in the form of exaggerated tax "refunds" to people who are already working, if only part-time, seems so much neater and less liberal than doing it through the standard welfare system.

The great claim for EITC is that the program is a way of helping the poor without undermining their work ethic; the money is a "bonus" for working, unlike AFDC, for which people only qualify by not working. Despite the fact that it has been in existence, in one form or another, for nineteen years, there have been few studies of EITC's actual effects. The most rigorous study, conducted last year at the Institute for Research on Poverty at the University of Wisconsin, indicates that EITC creates as much disincentive to work as incentive. Indeed, recipients who are already working work less when they receive this additional cash supplement.

There is no asset test for EITC. You could have a house, car, and boat and still qualify.

Even without its staggering fraud rate, the plain fact, as we shall see, is that EITC is not a refund of taxes paid, but merely a transfer program for people who are too successful to qualify for welfare. Legitimate recipients are often genuinely poor—of that there is no question. And many do work hard for not much money. But when did the American taxpaying public agree to institute a second tier of welfare? When did our leaders conduct a national debate over whether we wished to permanently subsidize all workers at the low end of the pay scale to make sure their incomes reach a guaranteed minimum level?

When we did have such a debate—during the Nixon administration—over what was then called the "guaranteed annual income," or a similar plan, the "negative income tax," these radical redistribution programs were rejected. Studies at the time showed that such programs invariably diminish the amount of work people are willing to do to support themselves.

Perhaps we wish to subsidize the working poor all the same. Perhaps the nation enthusiastically agrees with Robert Shapiro, the "new Democrat" economic guru at the Progressive Policy Institute, who says, "No American family with a full-time worker should have to live in poverty." But at a time when the nation seems to be concluding that Great Society transfer programs have created as many problems as they've solved, at tremendous and unsustainable cost, it's important that our leaders put the dozens of means-tested redistribution programs on the table for re-evaluation. When advocates argue that welfare only costs $24 billion a year, they are merely referring to AFDC. Food stamps cost another $40 billion annually. If you include all of the other programs—including EITC, Volunteer Grandparents, daycare, etc.—the stunning cost of welfare reaches the neighborhood of $350 billion a year. And we're back to the question of priorities.

Where EITC Came From

The Earned Income Tax Credit began, innocently enough, in 1976. After a particularly large jump in the Social Security payroll tax, officials worried that people with incomes near the poverty line would be driven into poverty by federal taxes. The EITC was intended to refund the Social Security (FICA) tax, and to make sure that recipients got credit as if they had paid into Social Security. In its original form, the program prevented a fairly small number of workers and their children from falling into poverty as a result of government tax policy. What could be more laudable?

That's why the program is administered by the IRS, and why EITC payments take the form of a "refundable tax credit," even though, as with so many income redistribution programs, the rationale and goals for the EITC—and, more importantly, its size—have expanded several times since the program's inception. In a paper published last November, John Karl Scholz, an economist at Wisconsin's Institute for Research on Poverty, called EITC "the cornerstone of the Clinton Administration's welfare reform agenda." By 1998, the paper pointed out, EITC is expected to cost the federal government $24.5 billion per annum; AFDC, in contrast, will cost $16 billion yearly.

EITC is not like any other tax credit you've ever heard of. Most of them reduce taxes dollar for dollar, like a grocery-store coupon. If your normal tax bill is ten dollars, and you're eligible for a two-dollar child-care credit, you simply pay eight dollars in taxes rather than ten. The catch is that you actually have to pay taxes for such a credit to do you any good.

Unlike any other tax credit—with the arcane exception of the "off-road motor fuel tax credit" (which also has an enormous fraud rate)—the EITC is a "refundable credit." If you qualify for the EITC, and you owe $5 in taxes, you might, for instance, get a $10 "refundable tax credit." With a normal credit you would simply not pay the $5 you owe.

But with a refundable credit, you pay no taxes at all, and then Uncle Sam sends you five bucks in the mail.

Since people with incomes under the poverty line do not pay federal income taxes, you can qualify for EITC without having much, or any, tax liability to begin with (besides, of course, the payroll tax). According to studies by Marvin Kosters of the American Enterprise Institute, an expert on EITC, almost 90 percent of those who receive EITC cash payments pay no federal taxes to begin with. For them, the program simply amounts to a cash bonus.

What does it take to qualify for this extra spending money? In 1994, a worker with one or more qualifying (dependent minor) children and an income up to $25,296 was eligible for some credit. The maximum credit, for a worker with two children and a salary of $11,000, was more than $2,500.

Under the generous Clinton expansion announced by Shalala, the rates of the credit will be increased by one-third by 1996. That means that, at the maximum level, EITC will give recipients roughly 40 cents for each dollar they earn. So, in 1996, a worker who earns $11,000 will get a bonus of $3,370. Workers who earn more get a smaller payment, up to an income of $27,000, at which the credit is phased out. In addition, most of these workers are also eligible for food stamps and, in many places, subsidized housing. As should be obvious, the value of benefits far exceeds restitution of the 7.5 percent tax on wages that workers contribute to Social Security.

EITC creates a disincentive to work, Scholz maintains. "People's preferences are such that as they have more income, they buy more of the things that they like, and they like leisure."

Who Gets It? Who Should?

The EITC is widely understood to be for the benefit of full-time, year-round, low-wage workers supporting families; the payments are supposed to make up the difference between their yearly income and the national poverty level. Jeff Hammond, an economist at the Progressive Policy Institute, the think tank of the Democratic Leadership Council, articulates this wishful understanding with evident sincerity. "The EITC is designed to insure that families who work year round will at least reach the poverty line," says Hammond. "It is designed to be the amount of credit equivalent that will pull your income up to the poverty level, depending on the structure of your family."

Hammond describes the target recipient as "a person who works very hard, makes the minimum wage—which doesn't get you to the poverty level if you have kids. But he's doing the right thing. He's setting a good example, even though he could go on welfare. There is a tremendous social benefit to supporting workers, and, thereby, the work ethic."

It's difficult to argue with the sentiment that says that people who work very hard to support their kids but don't make a lot of money ought to do better than people who take welfare. Surely our wealthy nation ought to make things easier for such people. (Of course, one reason work appears not to pay is that welfare is so generous.)

But while some working families fit this picture, they aren't the majority of EITC recipients. For most of them, economic hardship is traceable to predictable reasons, not random bad luck in the face of tenacity. Contrary to the claims of EITC's political advocates, for instance, workers do not have to work full-time or year-round to qualify. They don't even have to earn low wages. You can work part time. You can work seasonally. You can work part of the year, receive AFDC part of the year, and qualify. Now that the Clinton administration has allowed single, able-bodied workers with no dependents to claim the credit for the first time, many students who work part-time qualify for some level of cash grant. Furthermore, unlike AFDC, there is no asset test for EITC. You could have a house, car, and boat, and still qualify.

A second fact that erodes the compelling picture of mom and dad battling inexorable economic forces is that roughly half of the families that receive EITC payments are headed by single mothers. This is worth noting because, in the relentless drive never to offend women, it is forbidden to mention that single mothers—especially those never-wed mothers and even those not on welfare—have a very hard time supporting children adequately. In reality, that cost is imposed on their fellow citizens. Only 20 percent of married, two-parent families with children earn less than $25,000 per year, whereas 75 percent of all families headed by single mothers live on $25,000 or less.

Without blaming women who find themselves in such circumstances, most of whom are doing the best they can, it is important to keep track of the economic costs of social problems such as divorce and illegitimacy. Both of those conditions arise from decisions made by individual men and women; they are not the result of forces of nature. While such families may require assistance, it is unclear why society should be perpetually required to compensate for people's lack of comfort.

The third divergence between the EITC proponent's claims and the truth, as astute readers have already noticed, is that the program is not limited to workers whose incomes fall under the poverty line. Again, according to John Karl Scholz, who has written extensively on EITC, half of the recipients have incomes above the poverty line. In most of the country, for instance, $25,000 is understood to be a solid lower-middle-class family income.

(As a small political footnote, "New Democrat" support for EITC originated as a "progressive" alternative to raising the minimum wage, which, Robert Shapiro has argued, is an inflationary action that hurts more poor families than it helps. In a 1989 report, Shapiro noted that only one-fifth of minimum-wage workers are poor; the rest are the second or third wage earners in their families. Former DLC leader Bill

Clinton expanded EITC in 1993, but has since proposed a $1.15 raise in the minimum wage, which seems to indicate that he only takes sophisticated "centrist" arguments seriously if they advocate redistribution.)

It's important to note that there is a serious problem among men with high-school (or less) education, whose incomes have remained stagnant for two decades. It is harder and harder for them to support families decently, even with working wives. Clinton administration economic policy, including current tax-cut proposals, is focused around this issue. Yet it remains questionable whether a problem of the re-organization of the nation's economy will be solved with personal subsidies. As Donna Shalala maintained in congressional testimony in 1994, "The EITC is essentially a pay raise for the working poor." She failed to add that it was a pay raise taken out of the pockets of other working Americans whose real incomes also have not seen major increases.

For Once, the Experts Agree

Remember: the reason politicians love this program is that it encourages people to work, not loaf. But does it really?

The University of Wisconsin's Scholz, who is an enthusiastic supporter of EITC, says the program offers "an unambiguous incentive for the non-working to start working, because the EITC increases their after-tax wages substantially." But for those already working, EITC creates a disincentive to work, Scholz maintains. "Because the EITC makes their incomes higher, they are likely to buy more leisure. People's preferences are such that as they have more income, they buy more of the things that they like, and they like leisure." Economists call this universal trade-off among people getting free money the "income effect."

"Many families not in the labor force are not on the margin of working," Scholz notes in a recent study. That means that incentives don't overcome everyone's decision not to work. The implication—at least as I see it, though I doubt he would agree—is that for some people sticks such as a welfare cut-off may work better than carrots. "Ninety-nine point five percent of EITC recipients," the study continues, "receive the credit in a lump sum after filing a tax return, so the links between earnings and benefits . . . are likely to be less clear to recipients."

It is another one of the unique aspects of EITC that experts on both sides of the ideological divide report precisely the same findings. Marvin Kosters, who for a decade has been the only expert on the EITC to testify against it, agrees that the disincentives are as strong as the incentives. He explains that "any level of income can be attained by working less than would be required in the absence of an EITC payment."

Furthermore, Kosters asks the one question never heard in Washington: "Suppose it's a good idea. Does that mean the bigger the better? Does it mean that any structure is just as good? I think not. The income cutoff is very high relative to average wages. It goes well into the middle class." He recommends simply excluding low-wage workers from all federal taxes or restoring EITC's original plan to simply refund payroll taxes.

But Kosters's objections to the program are not limited to its efficacy as policy. He also believes that the EITC's stratospheric fraud rate is due to inherent vulnerabilities in the program's current size and form. "The system lends itself to abuse when it gets larger," he says. "The possibility of complicated fraud emerging is greatly encouraged by the generosity and size of the thing. If it were small there would be much less fiddling around."

The term "fiddling around" is quaint and delicate when it comes to a discussion of the huge rate of chicanery in the EITC. In a political culture where the cynical expectation is that all programs are permeated by some degree of waste, fraud and abuse, the EITC, with its current 30-45 percent ($5-6 billion) fraud rate, is in a league by itself.

Helping the Inner City Help Itself

Jim Bruton, a Washington attorney with Williams and Connolly, served during the Bush administration as deputy assistant attorney general in the tax division of the Justice Department—i.e., the office that oversees the prosecution of all federal tax-fraud cases. Bruton thus became one of the nation's leading experts on the types and extent of EITC fraud. He suggests that the program invites fraud in a way the normal tax-return process does not, because the program gives out money directly to filers, instead of the more usual arrangement in which a refund is disbursed after taxes are paid. The EITC, he says, has "created a new type of tax criminal. Usually tax criminals are white-collar, or simply people who underreport, or don't pay their taxes. [EITC cheaters] are often street criminals who can file fraudulently and take money from the system."

According to Bruton—and to other senior Bush administration officials at Justice and the IRS—the problem began to escalate in 1990. Bruton and his boss, Shirley Peterson, then–assistant attorney general for tax, noticed an increase in fraud reports coming in from around the country, resulting, he speculates, from an expansion of EITC that took effect that tax year.

Peterson, say colleagues, was particularly interested in dealing with the problem. As cases came in from IRS field offices, she made sure that the local U.S. attorneys were apprised of them. But, as one official said, "the maximum fraud in most of these cases was about $2,000. U.S. attorneys have long dockets. These cases got pushed to the back." Bruton adds, "It costs roughly $3,000 for the IRS to send a criminal investigator to check up on a filer."

Over the years, small-time EITC fraud has involved obvious schemes such as a husband and wife, each with a qualifying income, filing as if they were divorced, and both receiving the credit; people with illegal income filing tax returns and getting the credit; two single mothers who don't work (and may receive AFDC) pretending that they are each paid to look after the other's children; people filing with wholly fictitious children; people under-reporting income to maximize the amount of the credit they get.

Slightly more creative chicanery involved people filing requests for employer ID numbers (which are utterly routine and never checked), making up a company, filing phony W-2 forms, and collecting the cash refunds. Some hustlers used phony addresses, stolen or phony Social Security numbers (the IRS sent the refunds even when they noted that the number was incorrect). One common trick was to steal Social Security numbers from the files of schoolchildren at public schools. (The subcommittee's records are full of such colorful anecdotes, by tax-preparers currently residing in federal prisons.)

Far more innovative fraud was encouraged by the IRS's new electronic filing procedures. Regular taxpayers are generally reluctant to file by computer, because there are no safeguards to ensure that the information you file doesn't get changed once it reaches IRS headquarters, and in all criminal tax prosecutions the burden of proof is on the taxpayer. But the IRS, eager to shift to electronic filing, created a special inducement to use the new system—the Direct Deposit Indicator (DDI). Within mere hours of filing a return electronically, the filer would be notified of the amount of his refund with DDI. (Under normal conditions it takes a couple of weeks.)

Street entrepreneurs and members of the criminal underclass must have felt like prospectors stumbling on gold nuggets glittering in a riverbed. DDI allowed banks and some tax preparers to offer loans, using the DDI as collateral. These "refund anticipation loans" fueled major economic activity in the inner cities. Bruton tells of refund anticipation loan centers springing up in used-car lots—so that people could file their EITC claim and drive away in a Chevy.

There were other fabulous schemes. In one Midwestern city, when business got slow for a network of illegal drug dealers, the dealers helped clients file for the EITC. Your tax dollars flooded back into the ghetto within hours, sending drug sales booming.

Word of the scheme spread quickly. Soon street gangs in Los Angeles were preparing neighborhood tax returns—for a cut of the EITC refund loan. A group of immigrant cab-drivers in Texas was caught doing the same thing. Across the country, people whom liberals believe cannot hold a job were impersonating tax preparers and helping the Clinton administration achieve its goal of helping the working poor.

Not just criminals but even legitimate banks and tax preparers, such as H&R Block, were doing a land-office business with the refund-anticipation loans. They even lobbied to maintain the DDI well after the fraud had surfaced. The IRS was entirely aware that this fraud was going on. In 1991, when Shirley Peterson moved from the Justice Department to head the IRS, she brought along a sophisticated understanding of the problem. According to one former IRS official, she was extremely frustrated to discover that the IRS's antiquated computer system made it impossible to trace the eligibility of EITC applicants efficiently. In early 1992 she ordered DDIs to be stopped, because they were the direct catalyst for much of the program's fraud.

Among the first moves made by the incoming Clinton administration—and new IRS Commissioner Margaret Richardson—was to reverse that decision and restore the DDI. This ensured that the massive fraud would continue, just as President Clinton was expanding the program. In response to congressional pressure, Richardson suspended the DDI last December 28, creating havoc in the current filing season. (See sidebar at left.) And provisions in the GATT treaty passed last December will stop EITC benefits from going to non-resident aliens as well as prisoners.

While the magnitude of the fraud was well known enough that Richardson should have been aware of it, much of the blame must go to the permanent bureaucracy at the IRS, which has been criticized for intransigence, internal bureaucratic feuding, and an institutional culture that does not allow for the admission of problems. The "systems people" at the IRS, who were gung-ho about electronic filing and whatever it would take to expand it, were engaged in destructive internal squabbling with the Criminal Investigative Division (CID), which naturally felt that fraud should be prosecuted.

THE LATEST EITC MESS

Four days before the January 1 start of tax-filing season, in a last-minute attempt to avoid a repeat of the past year's 45-percent EITC fraud-and-error rate, the IRS, under pressure from congressional investigators, announced that it would crack down on electronic refunds by halting use of the Direct Deposit Indicator (DDI), and instituting new verification procedures, including cross-checking returns against social security numbers. The verification could delay EITC "refunds" by up to two months.

The new policy has created havoc and anger among recipients. Those outraged include many of the poor who have come to depend on the quick turnaround. So far, more than 1 million people have called Beneficial National Bank, a major "refund anticipation loan" (RAL) processor. It is just such loans that are the target of the reform: last year, the IRS concluded that 92 percent of fraudulent electronic returns involved RALs.

An H&R Block hotline has received more than 5 million calls about RALs. Said H&R Block president Harry Buckley, "You just can't have this many poor people depending on this money and have it not be there—it's like saying we're not going to pay welfare this month." (This is not pure altruism: last year Block and a handful of banks processed roughly 9.5 million RALs, of roughly $1,500 each, for an average fee of $31, grossing $300 million.)

Is cancellation of the DDI justified? Truly needy people would not face harm from delayed returns if the money were paid out in monthly increments instead of lump sums. The IRS offers the monthly check option, through employers, yet fully 99 percent of recipients prefer the lump-sum payments. EITC recipients would obviously benefit from the weekly approach, which would also more clearly "make work pay."

—*L.S.*

Writing in *Tax Notes Today* in October 1994, reporter George Guttman—who broke the scandal in the tax community—revealed that, according to Joe Santavicca, a recently retired employee of the Criminal Investigation Division, "The onus was on CID employees to do nothing that slowed the electronic filing process. Suspicion of fraud in many instances was not enough. The message from many senior managers at the service centers was that questionable claims should not be held back unless the reviewers were absolutely sure that the claims were fraudulent."

The IRS has traditionally been reluctant to discuss tax fraud since it has a large stake in conveying a sense of omniscience, considering that we still have a largely voluntary compliance system. The IRS generally only discusses fraud that it has discovered in conjunction with punishment it has meted out. For obvious reasons, the IRS cannot and does not discuss fraud that is successful. The internal political culture of the IRS is not conducive to admissions of massive failure by one or another competing department.

For all these reasons, when the House Ways and Means Committee wished to investigate the fraud, they bypassed top IRS officials and went straight to then–Treasury Secretary Bentsen.

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The Threat to Liberty

In his opening statement in February 1994 hearings on refund fraud, former oversight committee chairman J.J. Pickle of Texas said, "In my judgment, the IRS has almost perfected the art of using its computers to give out tax refunds quickly, without making a corresponding effort in the area of fraud control."

Toward the end of a long interview, Jim Bruton, a man whose conversation reveals a passion for liberty and an ingrained distrust of state power rare in a political official, said, "When we take people's money under threat of punishment, aren't we obligated to be careful about where it goes?"

Not everyone involved with the EITC shared Bruton's concerns. Asked whether the EITC's fraud rate makes a difference in the utility of the program, Jeff Hammond, the economist at the Progressive Policy Institute, answered, "If 90 percent of eligible workers are receiving it, that's a great success rate. If there's some fraud, we can't help that." When questioned about the vulnerability to fraud inherent in the program's structure, Hammond replied testily, "We just design the ideas and the policy. It's not our fault if the IRS can't administer it effectively. Look, the problem is that the IRS doesn't have enough auditors."

The IRS is staffed so that only one percent of all tax returns are audited in any given year. Other than conducting a complete audit, there is no way to determine whether someone who claims the EITC is, in fact, eligible for it. Even if the IRS had the resources to check more returns, it generally chooses to audit taxpayers suspected of hiding significant amounts of income. It would cost the government more than the amount of the credit to investigate whether or not the recipient was eligible. As Bruton put it, "As soon as a program distinguishes between people who get and people who don't, you have to have a policing mechanism." That is why, for example, state departments of health and human services have armies of caseworkers assigned to monitor each AFDC recipient.

Just as a great many people in Washington think that it makes sense to use the military to deliver humanitarian aid, because it is more efficient than the average relief organization, so politicians are enamored of using the IRS to deliver social services. In recent years the IRS has been given the task of collecting student loans and child support payments, garnishing wages, and the like. IRS may well be more efficient than the Health and Human Services Department (who would doubt it?), but in a society based on a high degree of liberty and privacy, there are very troubling implications to broadening the scope and power of the institution most hostile to privacy, one that already has the coercive power of the state behind it.

Do we want the already overly powerful tax collection agency to have additional enforcement powers? Isn't this ultimately the most pernicious cost of the welfare state? Corruption increases because the government is giving away money. So the government increases its size, power, and ability to intrude into citizens' private financial affairs in order to fight the corruption. As former deputy assistant attorney general Bruton put it, "Every time we establish a new crime, we're creating a new mechanism for the government to check up on you." Adding more auditors imposes a non-monetary cost that citizens interested in liberty should find unacceptable.

The Earned Income Tax Credit makes an apt case study precisely because the program is not extremely big, overreaching in its goals, or fraught with the emotional baggage of AFDC. It is a cautionary example of a great truism of the welfare state: any program that starts out transferring money from those who earn more to those who earn less, even for the best of reasons, will ultimately be co-opted and turned into a general welfare program. It demonstrates, too, just how many obstacles even minor social engineering runs up against, even when the goal is the simple distribution of cash. These are not new truths, but they don't seem to have been learned yet, either.

Finally, the fact that IRS administers a cash giveaway program with a 30-45 percent fraud rate—and the shocking fact that President Clinton would expand such a program—gives a fair indication of just how much contempt the powers that be have for those who continue to pay their taxes, either voluntarily or because of the coercive power of the state to send those who don't cooperate to jail. ❒

Michael Ledeen

Africa Goes South

Sub-Suharan Africa remains mired in poverty, corruption, and disease—and its condition isn't likely to be improved by the Faustian bargain struck last year in South Africa.

Other regions may have problems, even very severe problems, but only Africa's are such that we can imagine everything south of the Sahara figuratively sliding off the edge of the world into a limbo of misery, mayhem, and disease. If the AIDS virus should mutate into a form that could be spread by insects or by aerosol (sneezing, coughing, etc.), we would probably witness the first quarantine of an entire continent, or something very close to that. The real numbers on AIDS are very hard to come by, but the rule of thumb is that the official figures approach one-third of the real level of infection, so the official HIV-positive figures of 20-25 percent in Zimbabwe are truly horrifying, especially when the great majority of these are in the most productive age bracket (20-40 years old). In Zimbabwe, there are so many deaths from AIDS that insurance companies are demanding blood tests for anyone who takes out a policy worth $50,000 or more (half of what it used to be), and are considering a five-year grace period so that anyone who dies of AIDS within five years of buying a life insurance policy is excluded from coverage. I don't have numbers for Zambia or Zaire, but travelers in those areas report that in many towns and villages there are old people and very young people, but the central age group in the population is decimated by disease. Even leaving aside the risk from infection, will anyone wish to invest in such a society? Will there be enough manpower to sustain life if AIDS-ridden countries are left with only the old and very young?

One needn't search for exotic reasons to despair over Africa, for there is plenty of conventional misery to go around. While the old Soviet system may have set a high standard for government corruption, Africa is certainly competitive. Anyone who has worked his way through the shakedown chokepoints in Lagos airport or "the beach" at Kinshasa—where one boards or leaves the ferry across the Congo River—knows that in this area, at least, Africans have extraordinary efficiency and entrepreneurship. Alas, their other unenviable field of expertise is killing, and while the quantity of murder in Rwanda was greater than in other recent tribal wars, the nature of the conflict was altogether familiar: tribal slaughters have gone on in Angola, Liberia, Sudan, and Mozambique. Meanwhile, nervous rumblings have run through Zaire and Nigeria, the two resource-rich giants whose futures, along with those of Angola and South Africa, will most likely determine the future of the African enterprise for the next generation.

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