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WILL MICROCREDIT SAVE THE WORLD?

Jeffrey Tucker

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After World War II, American politicians had the idea that Europe could be rebuilt through billions in aid and loans. The Marshall Plan did go through but not without the very vocal opposition of Henry Hazlitt, whose book, *Will Dollars Save the World?* showed that prosperity comes through saving, capital accumulation, and enterprise—not through floods of money. While the myth survives that Marshall did save Europe, serious studies have shown that the aid was mostly misused and that recovery came only through the means Hazlitt described.

All these years later, the dream of saving troubled countries through floods of money is just as prevalent, if not more so. Foreign aid is as fashionable as ever but now a new institution is similarly greeted with hosannas and ridiculous claims about its amazing power to make everyone rich: microcredit and microbanking.

For this reason, the Nobel Peace Prize given to Muhammad Yunus and his Grameen Bank of Bangladesh was greeted by left, right, and center, and was a glorious moment in the history of mankind. Why? Supposedly Yunus discovered that the poor can be empowered by banks that give them loans so they can start their own businesses, which then gives them an economic boost to become real players in the market economy.

It sounds good at first, but think about it. Yunus opened his operations in 1976. Thirty years have gone by. If he had made an entrepreneurial discovery, might conventional bankers have caught on to it by now? Most loans to the poor take the form of high-interest-rate advances for consumption purposes. Business loans usually require collateral, a credit history, and a moderate income to sustain them. That's market experience.

It's still market experience. The Grameen Bank has lived off government subsidies and foundation grants from its very outset, along with some highly coercive tactics for eliciting repayment. His first pile of cash came from the United Nations. Then he went to the Bangladesh government. Then he went to US foundations. In the '80s and '90s, the Bank received nearly \$150 million in grants. At the same time, he ➡



started borrowing at low interest rates from governments around the world, and lending out the same money at higher rates. The institution keeps the difference.

In 2001, the *Wall Street Journal's* Daniel Pearl and Michael Phillips revealed that the repayment rate of their loans isn't anywhere near what the bank claims, that at least one quarter of its loans were being used for consumption, that the bank delays defaults and hides problem loans, that the bank isn't subject to any kind of serious supervision, public or private. The government owns 6 percent of its assets, while the rest is only superficially owned by borrowers who cannot sell or trade their stock, which isn't ownership at all.

The bank says it no longer accepts outright grants—the grant money goes to a dozen or so spinoff “enterprises”—but it still borrows low and sells high, and since its books are under wraps and its stockholders are that in name only, we'll never know for sure.

But this much we do know. The Grameen “foundation” received \$1.5 million from Bill and Melinda Gates earlier this year. Meanwhile, George Soros has given some \$12 million-plus to all sorts of Grameen spinoffs, including gifts to expand banking in other countries. Since Yunus and Grameen won the prize, many institutions have rushed forward to take credit for the success, by virtue of their vast giving.

The repayment tactics of Yunus are very disturbing. He assembles peer groups to lean on delinquent borrowers, and makes political-mental reconstruction a condition of the loans, which nowadays are taken out in order to repay previous loans and so on. His “Sixteen

Decisions” that must be adopted by all borrowers read like a party platform for collectivist regimentation.

- “We shall take part in all social activities collectively.”
- “We shall grow vegetables all the year round. We shall eat plenty of them and sell the surplus.”
- “We shall build and use pit-latrines.”
- “If we come to know of any breach of discipline in any centre, we shall all go there and help restore discipline.”

A very strange “bank” indeed!

And why would economists—and sophisticated free-market economists, of all people—fall for the line that more debt can somehow save the world? Vijay Mahajan, the chief of Basix, reports to the *Guardian* that Grameen's tactics suffer from five fatal assumptions.

First is the idea that the poor should be self-employed rather than work for wages. That is contrary to the whole history of successful economic development.

Second is the idea that loans are the main financial service needed by the poor, whereas they really need savings and insurance.

Third is the idea that credit is what builds enterprise, whereas the truth is that entrepreneurship and management are more important.

Fourth is the idea that the non-poor don't need credit, whereas the truth is revealed in market-based banking: higher incomes can handle higher debt.

Fifth is the idea that microcredit institutions can become self-sustaining, whereas all experience shows that new enterprises in poor areas that are built on

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credit alone rarely emerge from dependency.

What people seem to forget is that receiving credit means you owe something in the future. Hence you must have a viable plan for how you are going to repay. You have to have a business model, some kind of record of success, an income stream, some kind of collateral—something! It is for this reason that credit serves a particular market function. It is an advance made on the anticipation of future earnings. It is not a grant, not welfare, not a means of social reconstruction, and not a tool for lifting a country out of poverty. If you see a bank that claims otherwise, there is a good chance that it is not a real bank but a conduit for social planning.

Grameen will not save Bangladesh. It will not magically produce prosperity. Nor will microbanking, microcredit, or credit of any sort save the world. What Bangladesh needs is a radical economic reform that will sell off its state-owned enterprises, lower trade barriers, deunionize its workforce, and deregulate its economy in general. Then and only then will economic growth take off.

In the meantime, saddling the poor with debt is a pretty shabby plan for how to get from here to there. One might expect that the Nobel Prize Committee would be able to think through this. But apparently they are as vulnerable as anyone else to the oldest economic myth in history. Building wealth, not manufacturing money, is the key to prosperity. ■

EMPIRE OR LIBERTY?

Llewellyn H. Rockwell, Jr.

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In the early part of the twentieth century, following World War I, Europe faced a crossroad. Would it choose the path of liberty or would it attempt to shore up the old imperial states that existed in the nineteenth century? A new democratic age had dawned, and monarchies had been overthrown.

Ludwig von Mises was the new Montesquieu, warning against large states and urging radical devolution of government as the only path to peace and prosperity.

The book in question is called *Nation, State, and Economy*. It was Mises's first book on politics. His explicit purpose was to map out a plan for Europe to avoid future war. To Mises, that meant turning the nationalist impulse toward a productive use in the creation of much

smaller states, and avoiding the error of empire.

He wrote that the princely states strive for expansion of territory and for unlimited increases in the number of subjects, with which the prince can expect higher tax revenues. The state believes that its survival depends on its size. The more mighty and expansive, the more it assures its preservation and prosperity.

But the idea of classical liberalism introduced a revolutionary idea into history. It saw that prosperity depends not on the size of the state but on its economic structure. In fact, an expansive state requires high taxes and inflation and these institutions actually war against prosperity. Moreover, it saw that small states are actually more stable and

long-lasting because they avoid the expense of war and refrain from cultivating enemies that seek their destruction. Their governments are more likely to remain small and limited.

The old liberal position, then, turned ancient wisdom on its head. It is not through empire that a nation (which is different from a state) achieves prosperity and longevity, but through free markets, free trade, small and localized forms of government, and an international policy of peace. This was the only way forward for Europe, if another war was to be prevented.

Mises made another point: small government resolves the civil strife that comes when too many people within a diverse population live under a unitary state. The struggle to gain power and impose one group's will on another will always be present. But devolved government keeps people out of each other's hair, and allows all people to interact by means of human choice rather than force. If we understand this point, we can begin to make sense not only of America's immigration problems but also why the war in Iraq has so far proven such an abysmal failure.

"Liberalism knows no conquests," Mises wrote, "no annexations. . . . It forces no one against his will into the structure of the state. Whoever wants to emigrate is not held back. When a part of the people of the state wants to drop out of the union, liberalism does not hinder it from doing so. Colonies that want to become independent need only do so. The nation as an organic entity can be neither increased nor reduced by changes in states."

Mises was very shrewd in turning the idea of democracy, which was then heralded by all as the great leap forward out of monarchical states, toward a literal rendering of the idea. To Mises, democracy meant that people consent to a government of their choosing. If people want to leave that government and form a new one, they are following the democratic impulse. Such is usually the case

in territories. To prevent people from leaving would be to assert the rights of empire over democracy. "Democracy," he wrote "is self-determination, self-government, self-rule."

The connection with his advocacy of free markets is clear. Just as in political life, people must always consent to the way in which they are ruled, so it is in economics, people should not be ruled without their consent in their exchanges, business enterprises, or choices of any kind. So long as people are not forced against their will in economics or politics, they are free, and it is this free condition that leads to peace and prosperity. Mises's idea of democracy had nothing to do with democracy today, in which an unwilling majority is ruled by special interest groups under ever-increasing power relations.

There can be no compromise between the liberal idea and the imperial idea, and no special considerations justify replacing the former with the latter. "The idea of liberalism starts with the freedom of the individual," he wrote. "It rejects all rule of some persons over others; it knows no master peoples and no subject peoples, just as within the nation itself it distinguishes between no masters and no serfs. For fully developed imperialism, the individual no longer has value. He is valuable to it only as a member of the whole, as a soldier of an army."

In contrast, Mises favored a globalism in economic relations and a localism in political relations. To achieve these required an ideological change that set aside grudges in favor of a future of liberal individualism.

Such was the Misesian vision in 1919. It was not to come to pass. World War I had ended with many resentments stewing and the old longing for empire had not entirely gone away. Germany in particular was ripe for bamboozlement

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News from the Institute

An Archive of Liberty

Researchers who come to our offices say that our in-house library is one of the best-kept secrets in the Western world. It's built on the personal library of Murray N. Rothbard, and the Freedom School collection of Bob LeFevre, with additions from many economists, historians, and philosophers. It includes not only books but rare monographs and political pamphlets from the last 100 years, as well as the papers of Mises and Rothbard. Please contact us to request a research visit. ■

Bestsellers

Sometimes people ask about our bestselling items. Here is the latest list.

- *A Century of War*, by John Denson
- *The Causes of the Economic Crisis*, by Ludwig von Mises
- *Lincoln Unmasked*, by Thomas DiLorenzo
- *Power and Market*, by Murray Rothbard
- *Human Action*, Scholars Edition, by Ludwig von Mises ■

Requiescat in Pace

The cause of liberty, and the Mises Institute in particular, have lost some very good friends. We mourn the passing, and celebrate the lives and achievements, of these great men and women. Their far-sighted concern for the future of freedom will always inspire us.

George Koether, 99, of Vero Beach, Florida, Charter Member and an eloquent ambassador for the Austrian School.

Lucile C. Dozier, 87, of Montgomery, Alabama, Member since 1985.

Ellis L. Phillips, Jr., 85, of Westwood, Massachusetts, Member since 1984, and a vocal advocate of sound money.

Milton S. "Sam" Umbenhauer, 99, of West Columbia, South Carolina, Member since 1987.

Vincent J. Alessi, 82, of Costa Mesa, California, Member since 1988.

Robert G. Ring, 78, of Naples, Florida, founder of Ring Can Corporation, Member since 1989.

John A. Foote, 86, of San Jose, California, Member since 1987.

Walter J. Menard, 97, of Madison, Wisconsin, Member since 1988.

Mervin A. Mathias, MD, 88, of San Mateo, California, Member since 1986.

George V. Eltgroth, 91, of Las Vegas, Nevada, Member since 1994.

Ralph G. Grant, 90, of Thomasville, Georgia, Member since 1986.

Charles E. Tomlinson, 72, of Florence, Alabama, Member since 2000.

J. Budd Tibert, 85, of Minto, North Dakota, Member since 2004.

Dale M. Haywood, 69, Northwood Institute, Member since 1998.

Hugh H. Macaulay, 81, Clemson University, Member since 2000.

Harry Browne, 73, who brought sound economic, monetary, and foreign-affairs thinking to the public debate.

Gottfried Dietze, 86, Johns Hopkins University, theorist of property rights and law.

Lord Harris of High Cross, 82, founder of the Institute for Economic Affairs. ■

Continued from page 4

by a leader who could tap into the resentment concerning lost territories.

What did we learn from the calamity of World War II? If we understand something about economics, we must see that a consistent stance against imperialism must also favor a completely free market, not only within the territory of the state but also with the entire world. A people who live in small independent cities can be the most prosperous in history provided they keep the markets free of any impediments, maintain a sound currency, and not interfere with the right of free association.

The old liberal vision is as valid today as it was before 1776, before 1787, and in 1919. There is a unity in the idea of a free economy at home and abroad, and a reduced and devolved form of government. We must reclaim that spirit that Patrick Henry said was alive in America's youth.

Why is it then that the Mises Institute is nearly alone in championing such a policy? After all, it is part of the conventional apparatus of received opinion in this country that people who love free enterprise also love war, while those who love peace are also friendly to socialism and people-impoverishing ideologies like environmentalism. Why is it that the Mises Institute position on this is so rare?

Well, we can observe that this position was rare in Mises's day too. When Rothbard took up the cause after World War II, he was nearly alone. And today we stand out among institutions for

upholding this ideal. And yes, this opinion is unconventional. But it need not stay that way. The cause of anti-imperialism and freedom triumphed in 1776 and it can triumph again, provided we have the courage to continue to speak the truth.

Never has the work of the Mises Institute been more essential. This country and this world need a voice that addresses the questions that others not only fail to answer, but also fail to ask. The cause of liberty itself needs the Mises Institute. It needs all our student programs to thrive. It needs our publishing to be even more aggressive and prolific. It needs our web presence to be ever more spectacular.

Academia is in desperate need of thinkers who understand what liberty means. The human population needs liberty in order to continue to grow in numbers and well-being, and liberty needs champions to make it so. This is what is needed for social peace and economic prosperity.

And above all, the Mises Institute needs you, your fighting spirit that inspires our work, and the confidence you give us to forge ahead and say what few others are willing to say. Thank you for all you have done to give voice to the wisdom of the ages, and for enabling us to point to a future in which the idea of liberty rises above all the ideologies that seek to kill the human spirit. ■

This speech was delivered on October 28, 2006, at "Imperialism: Enemy of Freedom," the Mises Institute Supporters Summit.

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