

The Ethic of Capitalism: Peace, Prosperity, and the Good Life through Microfinancing

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ABSTRACT

This paper argues that at the center of the peaceful, prosperous, and flourishing society is not only a democratic social contract between the state and its citizens, but also the service infrastructure of an institution that enables the access to capital for all of its people, including the poor. In 2006, economist and banker Muhammad Yunus, founder of Grameen Bank, won the Nobel Peace Prize for his 'efforts to create economic and social development from below'. The guiding objective of this paper is to build upon the discussion that peace and prosperity are attributed to economic growth through capitalism fueled by entrepreneurship and funded with credit. The central questions that steer the paper toward this discussion objective include: How does capitalism help the poor? What is the value of the entrepreneur? What theoretical model best describes credit as the tool for economic growth from below? The ultimate aim is to attribute the success or failure of the capital society to ethics – that is, the tools we use to achieve the good for ourselves and for others. Hence, at the root of any prize for peace is not only the ethic of capitalism, but the ethic of economics.

Keywords: microcredit; microfinance; capitalism; ethic of capitalism; ethics

INTRODUCTION

This paper's central argument is that capitalism, that is the *ownership of or access to* the factors of the production¹, is *the* way out of poverty – no other solution has the sustainability to offer tools to recover or to rise from being poor. Stated differently, the creation of wealth is the only long-lasting practice of building economic stability in political economies that understand the phenomenon that markets produce the best solutions for society – jobs, products, services, investments. Certainly, the strength of a nation's democratic political and economic institutions will yield different results. Results can be measured in various ways from unemployment rates, numbers of new small business licenses issued, to the general levels of happiness among citizens, to name a few. I do not suggest that simply exercising capitalism will offer quick economic relief or even long-term prosperity as capitalism requires a commitment to risk and investment.

The poor have been part of the social structure since humans formed groups. As a social and policy concern, poverty, that is the severe consequence of being poor, has been a political agenda item for centuries with various responses from complete ignorance, to social welfare, to work houses, to debtors prisons, to national and world aid programs, to foreign direct investment – all of which have had diverse impacts. The literature often concludes that aid programs offer short-term relief rather than lasting relief up to and including poverty elimination and that economic development is most beneficial when the people of a society are productive toward both a local and aggregate economy.

This paper's primary inspiration came from the 2006 awarding of the Nobel Peace Prize to Muhammad Yunus, an economist and banker who's Grameen Bank uses capitalism as the *only* method to alleviate poverty. Yunus' concept of microfinancing (or microcredit) has become a model solution for millions of clients in his home nation of Bangladesh to rise out of poverty through building wealth by establishing and maintaining small businesses. As the benchmark for other micro-lending banks around the world, Yunus and his Grameen Bank were recognized for the Nobel Peace Prize – *why?* This paper attempts to answer this question through discussing how prosperity through the micro-enterprise not only affords the poorest of the poor with important financing to activate on entrepreneurial goals, but also, more broadly, how peace through prosperity can help eliminate the violence and pain attributed to poverty and lack of opportunity.

¹ The factors of production include land, labor, capital, resources, knowledge, and entrepreneurship.

The paper approaches peace, prosperity, and the good life by framing these three hopeful concepts into four interrelated discussions. The primary methodological approaches include references to historical, philosophical, economic, and management literature in a trans-disciplinary study of the following: part one introduces the central *problem* at hand – that is, poverty and the implications of economic development; part two examines the *solution* to the problem by reexamining the theory of capitalism and its driver – the entrepreneur; part three examines the *tool* for entrepreneurship to build a bridge from poverty to prosperity by understanding Yunus’ peace strategy – microcredit. Lastly, the paper comments on the ultimate aim of economic development, that is, the good life – a life of prosperity, health, knowledge, work, ownership, and wealth². These characteristics are true to capitalism and give way to the title of this paper – *the ethic of capitalism* – where ethics, as we shall discuss further, are the tools toward reaching the good for ourselves and others.

PART ONE – THE PROBLEM

Poverty’s Implications and the Need for Economic Development

On Poverty

The ultimate end of this paper is to view capitalism as the ethic³, or the tool for the worldwide poor to gain momentum out of poverty. As previously stated, poverty has been a social dilemma for centuries. The poverty described here in this contemporary perspective is not the consequential lifestyle attributed to feudal societies of the Middle Ages where life was essentially predestined to either serfdom, military service, or nobility with very little variance in between. Rather, the problem of poverty in this discussion refers to the outcome of the modern market-driven, trade-associated, class-oriented societies, whereby the distribution of wealth is most often in the favor of those with marketable skills, access to power (political and economic), and the drive of entrepreneurship – that is the willingness to take a risk to mobilize oneself beyond their current situation. Certainly, this mobilization is not always easy or possible. For example, political regimes throughout the world still maintain heavy hands on policies for wealth distribution. Should one belong to specific ethnic tribes not in favor of the current political regime, such as the recent ethnic political and economic hostilities in Cote d’Ivoire, Africa, access to power via elections, jobs, education, and housing, for example, leave blocs of society without financial opportunities to maintain independent and prosperous⁴ lives with poverty as their unfortunate plight.

Today’s poor share the common denominator of the lack of *access* to opportunity thus fueling and sustaining their economic situation. Opportunities include education, a job market, mobility (in or beyond their village, city, or nation), democracy (traditionally recognized as access to elections, information, and power), and, most directly related for our case in this essay, the access to economic power through credit. Certainly the consequences of prolonged absence from this *access* or connection can be devastating economically, socially, physically, and psychologically. “The phenomenon of poverty” argues Bauman, ...does not [merely] boil down...to material deprivation and bodily distress...Poverty means being excluded from whatever passes for a ‘normal life’. It means being ‘not up to the mark’. This results in a fall of self-esteem, feelings of shame [or] guilt. Poverty also means being cut off from the chances of whatever passes in a given society for a ‘happy life’, not taking ‘what life has to offer’. This results in resentment and aggravation, which spill out in the form of violent acts, self-deprecation, or both. (1998, p. 37).

We must not overlook Bauman’s correlation of violence and poverty – indeed they go hand in hand. “Most of the wars since the end of the Cold War have taken place where poverty is most severe”, write Bryant and Kappaz (2005, p. 1). Hence, to enjoy a life absent of violence and rich with opportunity in all parts of the world, the importance of *peace* must be a constant inspiration as one of the end results of poverty’s elimination such that individuals, families, and

² Defined from the economic perspective of having ownership of assets (large or small) that have exchange or market value – thus leading to prosperity (beyond poverty).

³ I present ethics later in the paper in its natural, Greek translation – that is, defined as *habit* as well as tools toward moral or immoral behavior.

⁴ *Prosperity* is a culturally, politically, and economically sensitive term and covers a wide spectrum of social strata. The prosperity I refer to is directly related to an individual’s or society’s collective ability to gain and sustain independence from aid services by providing themselves with not just the basic daily sustenance, but having access to an economy, large or small, where income is earned, money is circulated, and well-being is afforded and realized.

societies who have access to these prescribed opportunities, have a higher probability of living in peace, prosperity, and enjoying a good life. If these opportunities are not realized, the results are disenchanting.

Van den Bosch helps illustrate the consequences of the *problem* at hand – he describes poverty as, “the situation where people lack the economic resources to realize a set of basic functions. Functions are what a person is or does, e.g. being healthy, visiting friends, or living in a decent home...A crucial aspect of poverty is that it is enforced” (2001, p. 1). Therefore, if poverty is part of the social and political norm through enforcement, the likelihood of poverty elimination is severely compromised. Often it is the fault of dysfunctional political regimes that lack vision, accountability, training, infrastructure, and revenues. For example, in Mexico, poverty flourishes primarily because the nation’s tax infrastructure is antiquated and corrupt disconnecting the poor from essential services, education, mobility, and money. Mexico’s dilemma is but a small snapshot of a worldwide *access* and distribution problem – the results are that poverty is enforced and tolerated, and, most importantly, avoided as a policy agenda item for politicians to conquer. Capitalism⁵, as we comprehensively discuss in part two, therefore, remains the only solution to fix the problem.

On Economic Development

Politics, that is the struggle for power, or, from the policy perspective, the allocation and distribution of scarce resources, are but one piece of the problem and solution to the plight of the world’s poor. Every nation in the world has a portion of their population that lives at or below a standardized poverty line. Even the wealthy Western democracies, including the United States, Britain, and France, to name a few, are challenged with this allocation and distribution dilemma – one that has been a policy agenda item for decades, if not centuries. Economic development simply means the process where the policies and actions of actors who have political and economic power as well as ideas for a given society are targeted toward economic growth. However, a distinction must be identified between the West and other developing nations as they both have divergent perspectives on peace, poverty, and economic development. For example, Chaudhri asserts, To the affluent society peace means more directly the absence of a nuclear war and disarmament, the maintenance of higher standards of living, and the protection of individual freedom. To people living in the developing countries, on the other hand, peace means, first of all, the absence of social injustice and political instability, and escape from misery, poverty, and hunger. This kind of peace is hard to attain from the developing countries; consequently political and social unrest continues (1968, p. 370).

Chaudhri paints the harsh picture of reality for many nations who remain stuck in political and economic underdevelopment. At the time of his writing, 1968, the traditional method of providing economic development for nations in need was to provide “capital from outside sources...this capital was spent on technological improvements brought in [by] the donor or lender countries in exchange for goods such as machinery” (Schrader, 1997, p. 19). The results of this type of exchange economic development evolved after the 1970s with the experiment of foreign direct investment (FDI) programs where host governments subsidize or encourage international corporations to build plants in their home nation. The corporation will often help build the necessary infrastructure (water and electricity lines) for the plant’s construction, hire local labor at or above local competitive wage rates to work for the company, and pay corporate taxes to the host nation’s government. We see this type of FDI strategy flourishing in China, India, Latin America, Africa, Europe – all over the world.⁶

With economic activity in a once poor community, the results can be promising not only by creating a circular flow of money, but also the opportunity for small businesses to be created as tangential, support businesses. A licensed food vendor with his or her cart waiting outside of the corporate campus in Bangalore, India, is a small example of how small business enterprises respond to FDI. Like the large corporation, these small businesses require access to capital to enter into the competitive market – hence credit, our main focus in this essay, is part of the cure for eliminating poverty. Economic development has seen different strategies over the years. As described above, in the early days, Schrader suggests before the 1970s, “economic growth and income growth were assumed to depend on the growth of factor

⁵ Capitalism, we must remember, is both a political and economic system – economic growth is impossible unless the political system supports the market as the source for sustainability.

⁶ My focus is on growth and prosperity, and, accordingly, I do not highlight the negative consequences often associated with FDI – pollution, labor exploitation, fraud, etc. These negative externalities of market failure have been the target of correction by worldwide organizations such as the WTO whose intolerance of corporate bad behavior has been strictly enforced.

inputs (such as direct aid programs) of which capital input was treated to be the most important variable” (1997, p. 19). Entering into the 1980s, the focus from capital inputs from the donor nation to factor *outputs* from within the host nation becomes a new strategy to not only support FDI, but also to strengthen and broaden economic development, up to and including eliminating poverty. Schrader confirms, “the access to cheap credit on the grassroots level was identified as a necessary condition for [this type of] development...the economic rate of return as the measure for success, which included macroeconomic and public benefits such as health, employment, education, external effects, [etc.]” (p. 19).

The evolution of economic development programs and strategies has had poverty elimination as one of the goals from the outset, but the practices have been forced to evolve. As stated above, the initial process consisted of direct lending and exchange programs from ‘above’ whereby national governments would allocate and distribute aid accordingly (capital inputs). This type of development plan most often yields short-term results primarily because sustainable capital outputs are not fully realized (jobs, products, infrastructure, etc.) FDI programs offer more long-term, more comprehensive solutions to foster economic development where the host government, business, and society become part of the overarching actors and beneficiaries. In the end, however, no FDI program can sustain itself without effective, transparent, and consistent national and local political support. Besley and Burgess contend that, ...the agenda for growth places greater emphasis on institutional [political] reforms that expand opportunities for households, improve the climate for doing business and improve the accountability of elected officials. The current redistributive agenda focuses less on transfers of money and more on specific policies – particularly public services, credit and property rights (2003, p. 4).

A consistent theme that appears throughout the contemporary economic development literature is the underlying requirement for credit – credit not only for the FDI programs, but for those at the receiving end, the poor. As we shall see in part three, credit by way of understanding capitalism, and entrepreneurship in part two, remains perhaps the most critical, central ingredient to maximize poverty elimination programs through economic development. Do economic development programs work? One measurement of success would be from the eyes of the foreign investors and the hosts – certainly the world is saturated with FDI activity that indicates economic output that was once perhaps a vacant lot. At the grassroots level, indicated by Schrader, development success is measured by public benefits such as improvements in healthcare, employment, and education. But what really helps strengthen the success story are the numbers of the reduction of poverty as a whole. According to Oyen, “between 1990 and 1998, the [global] headcount index of poverty has fallen from 29.3 percent to 24.2 percent, which represents solid progress” (2002, p. 5). What does this all mean? The numbers suggest that the evolving practices above (including the countless poverty reduction programs from non-profits, NGOs, faith-based organizations, etc.) have yielded worldwide favorable results; yet for policy makers, corporate investors, and the many stakeholders [most importantly the poor] connected to economic development programs, a deeper examination of the key driver of this success is required – capitalism, entrepreneurship, and credit.

PART TWO: THE SOLUTION

Reexamining the Theory of Capitalism and Entrepreneurship

On Capitalism

First, we must define *capital*, a concept that is often misunderstood, overly used, and poorly articulated. From the economic perspective, capital refers to wealth in the form of ownership of property or assets that through their productivity and exchange a business enterprise (from the corporation to the street vendor) has the potential to yield gains or profits – simply, revenues minus expenses.

In 1776, Adam Smith, the father of economics, that is the man who essentially first shaped the contemporary explanation of wealth and its macroeconomic purpose, characterized the efficient flow of capital from an ‘invisible hand’, a hidden, but powerful force where the market is the place for any and all goods and services demanded by society to be exchanged for money between a ‘supplier and demander’ and not a ‘visible’ state or government that manages or owns the flow of its residuals, but rather supports and protects its independence through the rule of law. In

1927, Professor Morrow conveyed Smith's theory thoroughly and eloquently: The two main causes of the productivity of modern industry are the division of labor and the accumulation of capital. Self-interest is the explanation of both these key facts. The individual finds it more to his interest to exercise his strength and develop his skill in one occupation and exchange the surplus of what he produces for the products of other men's skill than to attempt to supply all his various needs by the labor of his own hands; hence the division of labor. Likewise, the accumulation of capital: 'The principle which prompts to save is the desire of bettering our condition, a desire which, though generally calm and dispassionate, comes with us from the womb and never leaves us until we go into the grave.' Thus, by following his own interest, as the individual sees it, he is furthering the progress of his neighbors and his nation toward wealth and prosperity...with Adam Smith, the material resources of the modern world, and the human traits which have created it, and attempts to determine under these conditions wherein consists the happiness and perfection of a man, not only as an individual, but as a member of the family, and of the great society of mankind (1927, p. 327).

In essence, economics tells us that capitalism is the ownership of capital where politics tells us that capitalism is the system by which predominantly democratic governments legalize the ownership of capital and wealth to its citizens.

We must not overlook the *democratic* theme for the 'great society of mankind' is only possible when and where the market described above is 'free' – free from overt taxation, regulation, and free from policies that restrict competition. Freedom, then, is a major ingredient for capitalism to flourish and yield its benefits to the poorest of the poor to the wealthiest of the wealthy. Capitalism, freedom, and self-interest have been a philosophical talking point for centuries from Aristotle 2300 years ago, "criticizing his teacher Plato, thought that common ownership means common neglect, whereas private property is a stimulus to maximum production and provides the incentives for individual and social improvement" (Gianaris, 1996, p. 19), to Locke's 17th century argument that "the right of individuals to own and use property freely...gave rise to ideas of political liberty and the rule of law (Wolf, 2003, p. 48), to Milton Friedman's 1962 assertion on the market and poverty, "...so far as possible [any poverty] program should, while operating through the market, not distort the market or impede its functioning" (p. 191) – suggesting here that the capital market can not only help the poor through its mechanism to provide wealth opportunities, but also, that the market will most efficiently provide relief to the poor.

The list of thinkers who have attempted to articulate the contribution and destruction of capitalism is long and, as demonstrated above, traverses over two thousand years.⁷ Our purpose here, however, is to directly link capitalism and its characteristics as *the* way out of poverty by attributing both the economic and political classification to help the poor and disenfranchised to learn how to use, find, and create capital often from nothing. The list of these teachers, however, is not as long and specific to our task. We find the connection of capitalism to poverty reduction more prevalently in more contemporary thinkers and practitioners from de Soto, as described below, to Yunus himself with the actual *tool* or program we shall discuss in part three. Indeed, who teaches the poor about such solutions as well as who allocates resources to the poor to understand, utilize, and maximize wealth building solutions has been a debate for a long time. Many politicians seeking electoral victories in their parliaments, congresses, or presidencies, will often criticize the current poverty problem in their nation or district by relentlessly highlighting statistics that poverty still endures and that drastic measures must be taken (usually redistribution tax policies) to once and for all eliminate poverty from their society. Often this type of policy strategy is rejected by the capitalists (those presumably with access to wealth) as socialism – the opposite of capitalism by way of state owned capital and distribution of wealth – or such policies are accepted by the those who need the distribution and either gain or lose by majority vote come election day. We see this type of political economic outcome most recently in the 2007 close presidential race in France – the capitalist ideology won, narrowly.

The central argument of this paper asserts that poverty reduction or elimination is not brought about by wealth redistribution policies or by local or global aid programs, but rather that capitalism fuels the incentive for the poor to independently attain wealth. Political and economic policies must, however, be designed to sponsor, support, and fund

⁷ A short list of leading thinkers and contributors to the discussion of capitalism includes Say's early 19th century supply-side theory, Marx's 19th century class-driven, capital exclusion theory, Weber's early 20th century rational pursuit of economic gain theory, Keynes' government interventionist theory, to Friedman's later 20th century free market theory. To the countless other contributors whose names are not listed in this footnote – my apologies.

infrastructure for poor people to understand capitalism and exploit its benefits through marketable skills that can lead more effectively to economic growth and prosperity. Unfortunately, many of the world's poor are in such a horrific state where individuals, families, and entire communities are in no physical, emotional, educational, or psychological condition to simply pick up their capitalism tools and build a bridge from poverty to prosperity. We see the ongoing crisis of poverty reaching beyond capital infrastructure creation regularly requiring emergency aid toward hunger relief, disease treatment, vaccination care for malaria and HIV and the flu, to water purification management. We see African relief programs, for example, at the top of politicians' policy agendas. Regardless of the imminence of the enduring crisis, once poverty relief has been distributed and restored by effective policy design, implementation, and evaluation, the only solution that remains to sustain relief is to then build the political and economic and business infrastructure that leads the relieved poor toward wealth opportunities – if not, the crisis, as history dictates, endures.

On Entrepreneurship

Assuming that the poor must have outside help from governments, corporations, NGOs, and countless nonprofits throughout the world that bring relief, how do policy makers, donors, and the poor collectively design the bridge toward sustainable capitalism? Hernando de Soto helps best explain the problem of poverty, the need for capitalism, and the challenge of creating capital out of nothing. In this section I highlight the *solution* to poverty illustrating the need for the poor to learn to become capitalists by creating and accessing capital through taking risks – the single ingredient of the entrepreneur.

To best understand entrepreneurship we must first examine why the poor lack capital opportunities which we see through a final discussion of capitalism and poverty. In his wonderful book, *The Mystery of Capital: Why Capitalism Triumphs in the West and Fails Everywhere Else* (2000), Hernando de Soto conveys the essence of capital and its power around the world. De Soto's thesis states, "the major stumbling block that keeps the rest of the world from benefiting from capitalism is its inability to produce capital" (p. 5) – indeed a risky endeavor made even more challenging when the consequences of poverty (hopelessness, hunger, labor exploitation, deficient resources, ignorance) inhibit progress of any kind, let alone capital, in everyday life. Comparing the West and the developing nations, de Soto contends the following:

Developing Nations – Most of the poor already possess the assets they need to make a success of capitalism...but they hold these resources in defective forms: houses built on land whose ownership rights are not adequately recorded, unincorporated businesses with undefined liability, industries located where financiers and investors cannot see them...Because the rights to these possessions are not adequately documented, these assets cannot readily be turned into capital, cannot be traded outside of narrow circles where people know and trust each other, cannot be used as collateral for a loan.

The West – In the West, by contrast, every parcel of land, every building, every piece of equipment, store of inventories is represented in a property document that is the visible sign of a vast hidden process that connects all these assets to the rest of the economy. Thanks to this representational process, assets can lead an invisible, parallel life alongside their material existence. They can be used for collateral for credit. The single most important source of funds for new businesses in the United States is a mortgage on the entrepreneur's house. These assets can also provide a link to the owner's credit history, an accountable address for the collection of the debts and taxes, the basis for the creation of reliable and universal public utilities, and a foundation for the creation of securities that can then be rediscounted and sold in secondary markets. By this process the West injects life into assets and makes them generate capital (p. 6).

With capital within reach simply by understanding the value of the 'asset' whether it is a tangible good, an idea, a skill, a tool, or a single dollar, the road to prosperity of the poor is not as far off as many policy makers and researchers contend. In other words, for any business enterprise to begin, to sustain, and to flourish, de Soto argues that the capitalist first must *understand capital* and, moreover, recognize that capital needs fuel to begin and to grow – this fuel comes in the form of the entrepreneur. The entrepreneur is nothing more than one who takes a risk to access capital to make a business enterprise produce goods and services first, for the benefit of their self-interest, i.e. their survival, and then second and most strategically important, to create customers, i.e. demand.

Central to the movement from poverty to prosperity is freedom – of every kind, of course, within the law. On entrepreneurship, Huuskonen helps portray the importance of freedom and the psychological and practical importance of taking the risk to build a business especially among the poor. He argues, “it seems that the main motive for creating one’s own firm is to seek autonomy and personal freedom. Also, self-fulfillment, achievement, pride of craftsmanship, money, etc. are among the most often positive arguments for entrepreneurship” (1993, p. 45) and he later adds the need to avoid unemployment.

To briefly summarize the main idea connecting capitalism, entrepreneurship, and poverty is that wealth must be the goal of the poor. Wealth, as stated earlier comes in small forms and can grow. Aid programs, on the other hand, come in structured amounts and have no guarantee to sustain or grow. Therefore, *the* way out of poverty is through accessing capital, capturing the value of assets, and then managing this activity, usually in the form of a small business enterprise, by embracing competition which requires the factors of production which include: land (as simple as your location); labor (your daily contribution to the endeavor); resources (supplies and utilities); knowledge (insight of the market); capital (money and exchangeable assets); and entrepreneurship (the drive to mobilize through risk).

Our most famous and first contemporary teacher on this matter of the entrepreneur is Joseph Schumpeter who famously argues in 1934 in *The Theory of Economic Development* that, “by development, therefore, we shall understand only such changes in economic life as are not forced upon it from without but arise by its own initiative from within” (p. 63). That is to say, any business enterprise that has potential to compete will require the maximization of the factors listed above whereby the entrepreneur sees the opportunity to use their skill as a basket maker, or a bread maker, or tour guide, or translator, or a street vendor, or a farmer (typical enterprises among developing economies, or ‘combinations’ as described by Schumpeter) and realizes he or she has not made a single sale nor has a single dollar to move this venture forward. The important piece of the prosperity equation is that two of the traditional six factors have been exercised – knowledge and entrepreneurship. The idea of the business exists and the risk and drive to make it happen is alive. The next ingredient, perhaps the most important of all, is the will to access capital and most entrepreneurs, as described by Schumpeter, from the richest to the poorest around the world achieve this accessibility through *credit*.

To conclude, we return to Schumpeter who best illustrates this pivotal scenario: ...the possessor of wealth, even if is the greatest combine, must resort to credit if he wishes to carry out a new combination, which cannot lie an established business be financed by returns from previous production. To provide this credit is clearly the function of that category of individuals which we call ‘capitalists’. It is obvious that this is the characteristic method of the capitalist type of society – and important enough to serve as its *differentia specifica* – for forcing the economic system into new channels, for putting its means at the service of new ends, in contrast to the method of a nonexchange economy of the kind which simply consists in exercising the directing organ’s power to command (p. 70).

The overarching goal from the beginning to this point has been to build a theoretical foundation that explains the nature of capitalism and its connection and importance to worldwide poverty elimination. At the base of this foundation lies the entrepreneur, her goal to indeed be free and the reality that perhaps the only way to attain capital to move toward prosperity is to get a loan – indeed, all great endeavors have required a little to massive financing – the poor are not removed from this opportunity as we shall discuss below.

PART THREE: THE TOOL

Accessing Capital through Microfinancing – From Thales to Yunus

Credit is not new. The poor accessing credit is also not new. In *Politics*, Aristotle (384-322 B.C.) writes of the tale of Thales, a poor man who was challenged of his great wisdom as to his circumstance of his great poverty.

There is the anecdote of Thales the Milesian and his financial scheme, which involves a principle of universal application, but is attributed to him on account of his reputation for wisdom. He was reproached for his poverty, which was supposed to show that philosophy was of no use. According to the story, he knew by his skill in the stars while it was yet winter that there would be a great harvest of olives in the coming year; so, having a little money, he gave deposits for the use of all the olive-presses in Chios and Miletus, which he hired at a low price because no one bid against him. When the harvest-time came, and many were wanted all at once and of a sudden, he let them out at any rate

which he pleased, and made a quantity of money. Thus he showed the world that philosophers can easily be rich if they like, but that their ambition is of another sort. He is supposed to have given a striking proof of his wisdom, but, as I was saying, his scheme for getting wealth is of universal application, and is nothing but the creation of a monopoly. It is an art often practiced by cities when they are in want of money; they make a monopoly of provisions (Barnes, 1995, *Politics*, I.11, 1259a6-23).

The monopoly of provisions, stated by Aristotle, is that our friend Thales learned that poverty did not stop him from taking the risk of buying the olive presses (his capital investment) presumably on margin (credit) and then enjoying the fruits of the harvest by selling the finished product at market price. Accessing credit while poor is not, however, as easy as it may have been for Thales 2300 years ago. Nevertheless, the contemporary concept of microfinancing, or more commonly recognized as microcredit, has a unique history. In our final analysis of the *tool*, that is, accessing credit 'from below', the focus is on the model of microcredit implemented by Muhammad Yunus, founder of Grameen Bank, and its results. Does microcredit enhance the building of capital and entrepreneurship, and, ultimately, lead people from poverty to prosperity?

Social Capital

Most great organizations, enterprises, people, products, and ideas evolve over time. As stated earlier, we have seen the entire centuries-long dialogue on poverty and capitalism evolve from Smith to de Soto and we have seen the practice of economic development evolve from the pre-1970s strategies of aid from above (governments and NGOs) to the post-1970s strategies of aid from below (banking for the poor). Microfinancing has evolved as well and in fact, shows parallels to the history of economic development policies described in part one.

According to Johanson and Rogaly, microfinance is not necessarily new, but rather different in its initial concept and delivery. For example, the authors describe the previous lending situation:

From the 1950s, governments and international aid donors subsidized credit delivery to small farmers in rural areas of many developing countries. It was assumed that poor people found great difficulty in obtaining adequate volumes of credit and were charged high rates of interest by monopolistic money-lenders. Development finance institutions, such as Agricultural Development Banks, were responsible for the delivery of cheap credit to poor farmers.

These institutions attempted to supervise the use to which loans were put, and repayment schedules were based on the expected income flow from investment. Returns were often overestimated...as a result, loans were often not repaid. The credibility and financial viability of these subsidized credit schemes were further weakened by the use of public money to waive outstanding and overdue loans at election time. A dependence on the fluctuating whims of governments and donors, together with poor investment decisions and low repayment rates made many of these development finance institutions unable to sustain their lending programs. Credit for poor people was transitory and limited (1997, p. 5.)

From costly money-lenders, high default rates, and financial management from afar, the credit market for the poor historically offers short-term and costly relief primarily due to the learn-as-we-go tactics amidst policies more concerned with the investors' and government's returns than on actually infusing capital and sustainable growth easily and cheaply for the poor in need.

One of the difficulties of allocating resources within developing nations, is that "of the poor people worldwide (those who consume less than a 'standard' dollar-a-day), 75 percent work and live in rural areas. Projections suggest that over 60 percent will continue to do so in 2025, whereas micro-level evidence shows high rural poverty persistence..." (Mendola, 2007, p. 373). Further challenges deep within both urban and rural poor societies is the absence or deficient utilization of the glue of most social structures, social capital. Many scholars have recently discussed the value of social capital as an important component of the strong society. Perhaps most famously, Francis Fukuyama in his renowned book entitled *Trust* (1995) describes social capital as citizens' trust in government at all levels, trust in social institutions from faith organizations to the local police force, to trust in their neighborhood associations from schools to the family next door. In essence, social capital is much like ordinary capital as it is asset based; yet, it is often intangible, and can be more profoundly personal, psychological, and emotional. For example, high valued social capital operating successfully among the poor includes neighbors or nearby family members

babysitting each other's children when one family member is at work at the factory or in the field – the capital gain is that the service rendered is traditionally free and vital for financial wellbeing.

Yunus, Grameen and the Entrepreneur

At the heart of social capital is the community and it is the community-based program that brings us at last to the *tool* of microfinancing⁸ introduced to the world in its contemporary form in 1974 in Bangladesh by Muhammad Yunus. Recall that pre-1970s models of financing to the poor were poorly managed, too expensive for the poor, and produced unfavorable results. Yunus narrates his famous story as follows:

Bangladesh had a terrible famine in 1974. I was teaching economics in a Bangladesh university at the time. You can guess how difficult it is to teach the elegant theories of economics when people are dying of hunger all around you. Those theories appeared like cruel jokes. I became a drop-out from formal economics. I wanted to learn economics from the poor in the village next door to the university campus (Morduch, 1999, p. 1575).

Srivastava, also writing on Yunus, completes the story by putting faces and numbers to the reality of what becomes Grameen Bank. The author writes,

Muhammad Yunus...one day in 1974 met a woman from a small village in Bangladesh who made bamboo chairs for sale. Despite her endeavor, the woman was left with barely any profit after repaying the middlemen the money for the raw bamboos. He also discovered that some 42 people in the village suffered a similar fate and were in debt for a mere total of \$27. Mr. Yunus paid the loan so that they could break free from the lenders. He also offered himself as a guarantor for the poor at the local bank [Yunus later forms Grameen Bank in 1983]. From that day onward, he embarked on a journey to eradicate poverty and empower people deprived of financial services, especially women, to be self sufficient (2005, p. 45).

The literature on microfinancing is vast and any discussion on microfinancing lacks credibility without discussing Yunus, Grameen Bank, and the Banks' standards – that is, how the Bank produces results such as, “some 21 percent of Grameen Banks' microcredit program members raise themselves out of poverty within four years of joining the bank...some 94 percent of those who meet its criteria and take up loans are women...borrowers keep repayments at a rate of some 98 percent...Grameen Bank lends \$30 million a month to 1.8 million borrowers” (Srivastava, p. 46).

There are two phenomena interacting which illustrate the essential success factor of why microcredit shows measurable results – results that both distribute capital more successfully than the pre-1970s methods, and, more importantly, move people from poverty to prosperity. These phenomena are: the Bank's lending criteria (creating asset-based social capital) and the will of the entrepreneur (the risk to move beyond one's current situation primarily through owning and running a small business enterprise). Presented here is an overview of the Bank's famous, nonnegotiable standards that have become the benchmark for many micro-lending firms around the world. They are:

- Groups of five self-select themselves; men's and women's groups are kept separate but the members of a single group should have a similar economic background.
- Membership is restricted to those with assets worth less than half an acre of land
- Activities begin with savings of Taka 1 per week per person and these savings remain compulsory throughout membership
- Loans are made to two members at a time and must be repaid in equal installments over 50 weeks
- Each time a loan is taken the borrower must pay 5 per cent of the loan amount into a group fund
- The group is ultimately responsible for repayment if the individual defaults
- Between five and eight groups form a 'development centre' led by a chairperson and secretary and assisted by a Grameen Bank staff member
- Attendance at weekly group and center meetings is compulsory

⁸ A brief note on criticisms of microfinancing concerning the term itself and results. The term has become known more commonly as microcredit, simply a loan. Some contend that *microfinancing* is more appropriate for it includes lending, investing, and saving programs as well. I agree with this criticism and would want to see the poor begin to diversify their capital portfolios. Secondly, in their recent book, *Good Capitalism, Bad Capitalism* Baumol, Litan, and Schramm applaud the concept of microfinancing (they use microcredit), but warn that once the poor person begins a small business, such as bamboo chair making, the business owner cannot maximize economies of scale for growth. I agree in theory, but disagree from the level of drive, support, and strategic insight of the entrepreneur that is present in so many success stories.

- All transactions are openly conducted at centre meetings
- Each member may purchase a share in the Bank worth Taka 100 (Khandker, 1998, p. 23)

Grameen's standards remain steadfast and firm requiring the borrower to not only fulfill their debt obligation having accessed capital from the bank, but, moreover, to access social capital from his or her peers and neighbors. For the bank, the strategy is brilliant – the bank loans money to those who commit to the standards which is primarily an education-based (poor people learn how to manage and use debt) and social accountability-based program (poor people learn the importance of social capital and consequences through the network of their fellow citizens). Where previous loan programs failed due to restrictions from above, the Grameen (and its competitors) program succeeds because of accountability from within – the society and the individual.

The story of the woman Yunus meets selling her hand-made bamboo chairs but operating at little to no margin, captures the entire theoretical discussion throughout this essay as it is the bamboo chair producer who is a true capitalist as we have described. For example, the lady (the more predominant gender maximizing microcredit programs) owns the factors of her production. Perhaps the social capital and property rights of her ownership are not as clearly defined as they are in the West, but nevertheless, she does own or have connection with her enterprise: *land* (place); *labor* (her own); *capital* (a loan and some revenues); *resources* (tools); *knowledge* (her skill); *entrepreneurship* (her drive and risk to bring her talent and product to the market). As mentioned above, the first phenomena of successful micro lending is the accessing of the credit itself. The second element of the phenomena is described here where the entrepreneur – the idea maker, the risk taker, the enterprise creator, the scarcity eliminator, the innovator – is really the person who shows signs of the ultimate capitalist – that is one who accesses capital to start something from nothing.

And so, why the Nobel Peace Prize to an economist and not a diplomat or philanthropist? The connection of economic development, poverty elimination, and peace, as we have discussed earlier, go hand-in-hand. Szpara, et al, write, [The Nobel Committee] recognized Yunus' idea of micro-credit as a necessary instrument for building peace and prosperity at the grassroots level. According to the Committee, 'micro-credit has proved to be an important liberating force in societies where women, in particular, have to struggle against repressive social and economic conditions.' The Committee noted that there is a direct relationship between poverty, human rights violations, and socio-economic instability. Therefore, the struggle against poverty is part of the struggle for the restoration of human rights, democracy, peace, and stability (2007. p. 10).

In 1974, Yunus dropped out of formal economics with its elegant theories and models – so he says. Theories explain reality but the classic explanations for what he saw among the poor thirty years ago did not apply to this difficult, grassroots problem 'from below'. Yunus does in fact design a practical model through Grameen which the Nobel Committee recognizes as his 'algorithm'. His contribution to peace, therefore, is the now globally implemented standard of microcredit that recognizes capitalism as its ammunition to combat the 'war' on poverty with results that bring millions from poverty to prosperity not through creative outside diplomacy or world aid funding, but rather from within the individual entrepreneur who risks their reputation among his or her peers, makes the investment of capital, and strategically adjusts their product line to meet the market demand. In the end, the results are favorable for all of the many stakeholders connected to this algorithm: the banker makes a return on investment with the repaid loan; the entrepreneur makes a profit from her genius; the community is collectively busy at work and thus, what ensues is prosperity and, ultimately, peace.

CONCLUSION – THE ETHIC OF CAPITALISM

Peace, Prosperity, and the Good Life

This paper addressed the following three issues: the *problem* of poverty and the implications of economic development; the *solution* to the problem by reexamining the theory of capitalism and its driver – the entrepreneur; and the *tool* for entrepreneurship to build a bridge from poverty to prosperity by understanding Yunus' peace strategy – microcredit. But what about this term *ethics* from the title of the essay? Earlier I defined ethics as the tools or habits of

attaining good (or bad) behavior and outcomes. For example, if you have good work habits, you consequently have a good work ethic.

Aristotle said, “Every art and every inquiry, and similarly every action and choice, is thought to aim at some good; and for this reason the good has rightly been declared to be that which all things aim” (Barnes, 1995, *Nicomachean Ethics*, I.1, 1094a1-3). The guiding and bold argument in this essay is that capitalism is *the* way out of poverty. With the social objective of poverty reduction through the development of capitalism through maximizing entrepreneurship by using credit, this unique combination ‘from below’ has yielded results such as worldwide statistical poverty reduction, global economic development, and a Nobel Peace Prize for the chief innovator of the methodology. Hence, let us add a new concept to the dialogue of economic development. I propose that the *ethic of capitalism*, therefore, is not a complicated, elegant theory or concept, but rather it is a simple guide for understanding. It’s only ingredients include capital, entrepreneurship, and credit and its only requirement is that it is aimed at *the good*. As illustrated in the discussion of this essay, the results of the implementation of the *ethic of capitalism* are favorable both for the individual and society. Beyond new business enterprises, risks, and progressive movements out of poverty, a lasting momentum can be attained where the entrepreneur, that is the capitalist, can enjoy the fruits of a multi-stakeholder movement – *peace, prosperity, and the good life*.

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