The awarding of the Nobel Peace Prize to Muhammad Yunus

Microcredit, Macro Problems

Tuesday 17 October 2006, by BELLO Walden (Date first published: 16 October 2006).

The awarding of the Nobel Peace Prize to Muhammad Yunus, regarded as the father of microcredit, comes at a time when microcredit has become something like a religion to many of the powerful, rich and famous. Hillary Clinton regularly speaks about going to Bangladesh, Yunus's homeland, and being "inspired by the power of these loans to enable even the poorest of women to start businesses, lifting their families—and their communities—out of poverty."

Like the liberal Clinton, the neocon Paul Wolfowitz, now president of the World Bank, has also gotten religion, after a recent trip to the Indian state of Andhra Pradesh. With the fervor of the convert, he talks about the “transforming power” of microfinance: "I thought maybe this was just one successful project in one village, but then I went to the next village and it was the same story. That evening, I met with more than a hundred women leaders from self-help groups, and I realized this program was opening opportunities for poor women and their families in an entire state of 75 million people."

There is no doubt that Yunus, a Bangladeshi economist, came up with a winning idea that has transformed the lives of many millions of poor women, and perhaps for that alone, he deserves the Nobel Prize. But Yunus—at least the young Yunus, who did not have the support of global institutions when he started out—did not see his Grameen Bank as a panacea. Others, like the World Bank and the United Nations, elevated it to that status (and, some say, convinced Yunus it was a panacea), and microcredit is now presented as a relatively painless approach to development. Through its dynamics of collective responsibility for repayment by a group of women borrowers, microcredit has indeed allowed many poor women to roll back pervasive poverty. However, it is mainly the moderately poor rather than the very poor who benefit, and not very many can claim they have permanently left the instability of poverty. Likewise, not many would claim that the degree of self-sufficiency and the ability to send children to school afforded by microcredit are indicators of their graduating to middle-class prosperity. As economic journalist Gina Neff notes, "after 8 years of borrowing, 55% of Grameen households still aren't able to meet their basic nutritional needs—so many women are using their loans to buy food rather than invest in business."

Indeed, one of those who have thoroughly studied the phenomenon, Thomas Dichter, says that the idea that microfinance allows its recipients to graduate from poverty to entrepreneurship is inflated. He sketches out

the dynamics of microcredit: "It emerges that the clients with the most experience got started using their own resources, and though they have not progressed very far—they cannot because the market is just too limited—they have enough turnover to keep buying and selling, and probably would have with or without the microcredit. For them the loans are often diverted to consumption since they can use the relatively large lump sum of the loan, a luxury they do not come by in their daily turnover.“He concludes:”Definitely, microcredit has not done what the majority of microcredit enthusiasts claim it can do—function as capital aimed at increasing the returns to a business activity.“And so the great microcredit paradox that, as Dichter puts it,”the
poorest people can do little productive with the credit, and the ones who can do the most with it are those who don’t really need microcredit, but larger amounts with different (often longer) credit terms."
In other words, microcredit is a great tool as a survival strategy, but it is not the key to development, which involves not only massive capital-intensive, state-directed investments to build industries but also an assault on the structures of inequality such as concentrated land ownership that systematically deprive the poor of resources to escape poverty. Microcredit schemes end up coexisting with these entrenched structures, serving as a safety net for people excluded and marginalized by them, but not transforming them. No, Paul Wolfowitz, microcredit is not the key to ending poverty among the 75 million people in Andhra Pradesh. Dream on.

Perhaps one of the reasons there is such enthusiasm for microcredit in establishment circles these days is that it is a market-based mechanism that has enjoyed some success where other market-based programs have crashed. Structural-adjustment programs promoting trade liberalization, deregulation and privatization have brought greater poverty and inequality to most parts of the developing world over the last quarter century, and have made economic stagnation a permanent condition. Many of the same institutions that pushed and are continuing to push these failed macro programs (sometimes under new labels like "Poverty Reduction Strategy Papers"), like the World Bank, are often the same institutions pushing microcredit programs. Viewed broadly, microcredit can be seen as the safety net for millions of people destabilized by the large-scale macro-failures engendered by structural adjustment.

There have been gains in poverty reduction in a few places—like China, where, contrary to the myth, state-directed macro policies, not microcredit, have been central to lifting an estimated 120 million Chinese from poverty.

So probably the best way we can honor Muhammad Yunus is to say, Yes, he deserves the Nobel Prize for helping so many women cope with poverty. His boosters discredit this great honor and engage in hyperbole when they claim he has invented a new compassionate form of capitalism—social capitalism, or “social entrepreneurship”—that will be the magic bullet to end poverty and promote development.

P.S.

* From Focus on the Philippines (FOP) Number 15 and Focus on Trade #124. Originally published on Sunday, October 15, 2006, by “The Nation” (New York) http://www.thenation.com/doc/20061030/bello.

* Walden Bello is professor of sociology and public administration at the University of the Philippines and executive director of Focus on the Global South, a research and advocacy institute based at Chulalongkorn University in Bangkok. He is the author or co-author of many books on politics and economic issues in the Philippines and Asia, including, most recently, Deglobalization (Zed), and recipient of the 2003 Right Livelihood Award also known as the “Alternative Nobel Prize.”