

The contrarian

## Globalisation trumps microfinance evangelism

**The Nobel award to Muhammad Yunus highlights the success of microfinance, but it cannot fix global poverty, says Jon Entine**

The awarding of the Nobel Peace Prize to Muhammad Yunus, founder of Bangladesh's pioneering microcredit institution, the Grameen Bank, prompts a provocative question: what is the best way to address the plight of the two billion people in the world barely surviving on less than \$2 a day?

Studies upon studies have shown that "top down" government-run, NGO-supported aid programmes – the traditional "development industry" model favoured by the west and symbolised for many years by the efforts of the World Bank – are terribly wasteful. The unintended consequence is that these projects are often more effective in sustaining dictatorships in dysfunctional impoverished countries than in bringing sustainable economic benefits to the poor.

The most important impact of Grameen may not be what it does – Yunus calls microcredit "a powerful tool" in the world's poverty-fighting efforts – but in highlighting the power of private enterprise. Inspired by Grameen, the microcredit industry now touches nearly 100 million families. It is an extraordinary movement, and loans averaging \$150 each can literally be a lifeline. But, despite the evangelism that surrounds it, microcredit has limitations and dirty laundry to account for.

### True picture obscured

Although the money is supposed to be used to fund sustainable wealth-creating ventures, many of the recipients use it for food or other daily goods. Studies have shown that many under funded businesses disguise the shortfall by rolling over the rising debt into new loans.

And while microcredit has had modest success in trade-oriented economies like Bangladesh, it has faced tougher going in agrarian India and Africa. Even in Bangladesh, the cruel reality is that micro-gains from micro-scale basket-weaving co-operatives, egg-selling kiosks, or hawking bananas on the side of road – all typical enterprises – bootstrap almost no-one into the lower middle class.

Family income may "jump" to \$3 or slightly more a day, lifting people out of the statistical poverty jungle, but as noted by former Peace Corp director and World Bank consultant Thomas Dichter in "Despite Good Intentions", and David Hulme and Paul Mosely in "Finance Against Poverty", their lives change only marginally. The reality is that improved fortunes cannot be sustained without the engines of every successful growth economy – factories, trade and guaranteed regular employment, not indebtedness.

There are models for this: Japan in the 1950s, South Korea and Taiwan in the 1970s and, more recently, the Mexican border towns dotted with the maquiladoras – export factories – that pay wages



Sweatshop or route from poverty?

many times what workers in the interior are paid. Thailand, Malaysia, and Indonesia are pursuing this strategy.

Paul Krugman, the liberal economist and New York Times columnist, goes so far as to praise "fat-cat capitalists", noting that while they "might benefit from globalisation, the biggest beneficiaries are, yes, third world workers".

China is a case in point. It placed its bets on the export market, building factories that many well-intentioned observers dismiss indiscriminately as "sweatshops". But tens of millions of Chinese have marched out of rural impoverishment, following the poor in other Asian tiger economies. At present rates of economic growth, China could reach a US standard of living in a quarter of a century.

San Jose State University economist Benjamin Powell recently examined accusations of unfair wages in 11 countries in Latin America and Asia and found clothing factories provided the kind of security that micro-entrepreneurs can only pine for. For example, in Honduras, the average clothing worker earns \$13.10 per day, while nearly half the population lives on less than \$2 per day.

"These improvements," Krugman has said, are "the indirect and unintended result of the actions of soulless multinationals and rapacious local entrepreneurs, whose only concern was to take advantage of the profit opportunities offered by cheap labour ... No matter how base the motives of those involved, the result has been to move hundreds of millions of people from abject poverty to something still awful but nonetheless significantly better."

Yes, microfinance is a tool, but let's not get trapped by a romance with entrepreneurialism. For all of the remarkable achievements of Grameen Bank, half of Bangladesh's 138 million people remain desperately poor. One of the few glimmers of hope has come from the millions of new jobs created in the past 15 years – mostly for women – in the country's dynamic ready-made garment industry, which is growing at double-digit rates.

The development of advanced economies did not depend on poor people or even the middle class having access to credit. It was based on job creation. The money required to build electronics and clothing factories or build robust fishing or mining industries is far more than microfinancing can provide. As China is demonstrating in spades, that's a job for those rapacious multinationals. ■

Jon Entine is an adjunct fellow at the American Enterprise Institute and a consultant on business ethics.

runjonrun@earthlink.com

www.jontentine.com