

Micro-finance: a critique

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Abstract

Purpose – The purpose of this paper is to shed critical light on micro-finance.

Design/methodology/approach – This scheme is managed from an economic perspective.

Findings – Micro-finance comes to us as a left wing attack on the free enterprise system; as such, it ought to be opposed by all freedom lovers, at least in its present format. Other baggage weighing it down is, if not absolute fraud, then, what might well be considered at least serious chicanery. A further criticism is the cult-like behavior now surrounding it. However, is micro-finance *per se* necessarily fraudulent? Can it only be favored by critics of *laissez faire* capitalism? What of micro-finance shorn of all such encumbrances? Should it then be supported? No. Even the Platonic Ideal of micro-finance has serious difficulties. This claim is a matter of prudential judgment, not praxeology. But, even a pure-as-the-driven-snow variety of this scheme still violates the economic concepts of specialization and division of labor, an appreciation of the infant industry fallacy, and several other basic building blocks of the dismal science. There are other better ways to "cure poverty" than this misbegotten scheme. This one, paradoxically, exacerbates impoverishment by placing investment resources in hands less capable of making it grow than would otherwise be the case.

Practical implications – It would be unwise to invest in or support this scheme.

Social implications – Society should instead rely upon free enterprise banking, the occupy movement to the contrary notwithstanding.

Originality/value – It takes a minority position on this very popular institution.

Keywords Micro-finance, Fraud, Socialism, Free enterprise, Entrepreneurship

Paper type Conceptual paper

I. Introduction

Suppose there were a leftist academic named Professor Max Jones who had a new idea for curing poverty. He would produce polka dot colored automobiles, and hire the poor to work on these initiatives[1]. Posit that these ideas took the "intellectual" world by storm. Jones wins the Nobel Peace Prize; he is lionized and financed by the usual socialist suspects such as George Soros, many left wing US charitable organizations including the Ford and the Bill and Melinda Gates Foundations. As well, Professor Jones is *persona grata* on the part of numerous international institutions justly known for their denigration of free enterprise, such as the United Nations (UN), the IMF and the World Bank.

JEL classification – D14, G2, R51

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Further assume that Jones's scheme was seen by him and virtually all others as an explicit attack on the market for not providing these new and creative opportunities for the impoverished. Stipulate that the purveyor of these products was unwilling to make publicly available the records of his "successes" even though he had been pursuing these policies for several decades. Posit that Max Jones saw over-population and marriage as the enemies of economic development, that he engaged in cult like activities with his "clients." Suppose, moreover, that Jones supports socialism, feminism, and other philosophies that have long denigrated capitalism, and claims they are an integral part of his program for reducing poverty.

How would, should, defenders of the free enterprise system, react to such a phenomenon? It certainly would not be by piling onto this particular bandwagon; for to do so would support socialism[2].

But, also, they would not react by attacking the polka dot colored automobile scheme as a rights violation either. These, too, are legitimate parts of the market, no matter what their origins. We would content ourselves to make the point that the failure of the market to previously supply such goods, and thereby cure poverty, does not constitute a market failure. We might even cast aspersions on the success of these "market" offerings. This is precisely the spirit with which we now comment on micro-finance. There is nothing intrinsically wrong with it, from a legal point of view; however, emanating from Dr Jones as it does, it comes replete with all sorts of excess and very objectionable baggage. And even without these drawbacks, the idea is so problematic from a prudential judgment point of view, that it would be unwise to support it.

As it happens, Professor Max Jones does indeed have a real world counterpart. He is Professor Muhammed Yunus, Head of the Grameen Bank of Bangladesh. In Section II we discuss this man's career, and "contribution" to the eradication of poverty. Section III is devoted to a critique of the sort of "micro-finance" offered by this worthy. The purpose of Section IV is to criticize an ideal Platonic-type of micro-finance, completely unencumbered by the problems with its actual operation, courtesy of Yunus. In Section V we examine and reject several objections to our thesis. We conclude in Section VI.

II. Professor Muhammed Yunus

Muhammed Yunus was born in 1940 in Bangladesh. He was awarded the Nobel Peace Prize in 2006 (http://nobelprize.org/nobel_prizes/lists/all/) for his efforts in supposedly curing poverty, through micro-finance. But this is just the tip of the iceberg; his initiative has percolated over the entire planet. According to the Nobel Prize committee (http://nobelprize.org/nobel_prizes/peace/laureates/2006/press.html): "Grameen Bank has been a source of ideas and models for the many institutions in the field of micro-credit that have sprung up around the world[3]."

But beneath this widespread acclaim, the enterprise as more than just a little bit of clay in its feet. According to Tucker (2006), Grameen(s):

- is government subsidized;
- exaggerates its repayment rate;
- reportage of its balance sheet hides problem loans;
- is not subject to outside monitoring, unlike all other banks;
- is owned by government to the extent of 6 percent of its assets;
- is owned 94 percent by borrowers who cannot sell or trade their stock;

- charges rates of interest that would be illegal for pawnshops and pay day check discounters (see below on this);
- highly publicized success stories are actually few and far between;
- has facilitated large numbers of politically connected NGOs that have been able to cash in;
- has been giving loans for 30 years; in true leftist fashion, these have been virtually limited to poor women;
- has been subsidized by the UN, the Bangladesh Government, US Foundations;
- has discovered a new "market" niche: borrowing money from *governments* at low interest rates, and lending out these funds to its clients at significantly higher rates; and
- the Bill and Melinda Gates Foundation, and the notorious socialist George Soros, are heavy financial supporters of micro-finance[4].

Tucker (2006) also mentions Yunus's "Sixteen Decisions"[5] that must be adopted by all borrowers, and read in part 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."

III. Critique of Yunus-style micro-finance

A. *Women*

This new "progressive" initiative is solidly based on the premise that men are the enemy of all that is good and true, and women in sharp contrast are the last best hope for wresting poverty to the ground. It is no accident that Yunus' loans are virtually all made to women; men are spurned. And this strategy is by no means confined to Bangladesh. According to the *New York Times* Books (1996):

Chicago's Englewood neighborhood (is) where the Pull Circle Fund, a scheme based on the Grameen concept, operates. The borrowers are *all women*, all working against great odds to become economically independent. Their stories are dramatic and powerful: The women in Bangladesh battle against the monsoon, disease, and the prejudices of their menfolk, while in Englewood, the crime and decay of the inner city ensure that each day is a struggle to survive and to make ends meet (material in brackets, all added by present author).

We have heard all of this before. It was part and parcel of the domestic initiative to "get men out of the house" so skillfully skewed by Murray (1984) in terms of failed welfare policies in the USA and Jacobs (1989), in terms of the failures of public housing. This attack on the family was also part and parcel of Stalin's programs to eradicate social institutions opposed to his version of totalitarianism (mainly religion and the family). Let us say this loudly and clearly so that there can be no mistake about it: *men, too, are part of the family*. Denigrating them, ignoring them, making poor women independent of their husbands, is no way to cure poverty. Impoverished females are much better off

marrying the fathers of their children, not the state, or Yunus, or Grameen Bank. One of the most important explanatory variables for poverty is family break up. Slavery, horrific as it was, was unable to break up the black family; but the welfare system, far more insidious, did indeed have this effect (Tucker, 1984). Is this a matter of praxeology? No. But there is more than sufficient empirical evidence attesting to the importance of an intact family in addressing problems of homelessness, juvenile delinquency, abuse, poverty. Yes, it is a staple of radical left feminism that women are exploited and degraded, and that, therefore, the best way to rescue them is to loosen or sever the ties between them and their men. Yunus and Grameen have certainly bought into this mischievous notion. But that does not in the least excuse supporters of micro-finance who clearly see this as an error, but only in other contexts.

It is no accident, then, that Yunus is highly popular with feminist statisticians. According to Tucker (1995):

The micro-credit movement got a big boost at the summer 1995 UN world conference on women. The person who received the largest round of applause was not Hillary Clinton or Bella Abzug. It was a banker, and a *man* no less: Bangladesh economist Muhammad Yunus.

Well dissected.

Further, if Grameen had been lending for three decades to its overwhelmingly female clientele on a successful basis, surely this would have been a long enough time period for other members of this industry to find about this "success," and enter this field. That they have not done so tends to call into question Grameen's supposed accomplishments.

B. *State support*

Grameen Bank does not pay any corporate tax, which is substantial, pegged at the rate of about 20 percent (Tucker, 1995). Other firms, thus, have to make up this shortfall in government coffers. Now, of course, the concept of tax expenditures is fallacious. The state subsidizes us to the extent it fails to tax us only on the ridiculous assumption that this organization is really the proper owner of *all* our income, and, what they in their generosity do not call upon us to give them they are in effect donating to us. This is nonsense, on stilts. On the other hand, it cannot be denied that by taxing all other banks (corporations), the government does indeed give Grameen an unfair advantage vis a vis its competitors. Where is the case for in effect funneling resources in this particular direction?

There is an argument that can be made on libertarian grounds for supporting micro-finance even if the government financially supports it (Block, 2002, 2004, 2006, 2007, 2011a, b). But this only applies to innocent people (e.g. libertarians) seizing, or directing, state funds improperly mulcted from the long suffering taxpayer, toward the promotion of liberty and freedom. Ragnar Dannefskiold (Rand, 1957) and Ron Paul (Block, 2007) certainly qualify. But Yunus, Grameen, Soros, *et al.* do not come within a million miles of opposing the ruling class (Donhoff, 1967, 1971, 1998; Hoppe, 1990; Hughes, 1977; Kolko, 1963; Von Mises, 1978; Oppenheimer, 1975; Raico, 1977; Rookwell, 2001) that oppresses us. Rather, they are members in good standing in this category.

Consider NPR in this regard. According to Duffy (2008), only about 2 percent of National Public Radio's budget is at present met by government sources. If we ignore this small amount of state funding, does this mean we have to *like* NPR? Support it?

Regard it as an enemy of the ruling class and therefore on the side of liberty? Not a bit of it. Even though NPR is fully private (arguendo), we can still reject it as a biased source of leftist propaganda. We most certainly cannot justify government subsidies for this organization, at least not on libertarian grounds.

State subsidy for *any* enterprise, *ceteris paribus*, comes at the expense of other things that could be done with this money. If the government were to cease and desist this nefarious activity, other, better, things could be done with these funds.

C. Positive rights

Yunus is an advocate of positive rights. In his view (*New York Times* Books, 1996) "Access to credit should be a human right irrespective of economic situation." But this is erroneous (Block, 1986; Gordon, 2004; Katz, 2009; Long, 1993; Mercer, 2001). For, if A has a right, B has an obligation to recognize it, and not act incompatibly with it. For example, if A has a right to go unmolested, then B has an obligation not to murder, rape, steal from, A. So far, totally reasonable. But this is a negative right, the right not to be aggressed against. In sharp contrast, Yunus is advocating a so-called positive right. How does this work? Again, if A has a right, B still has an obligation to recognize it, and not act incompatibly with it. But this time, in the view of Yunus and other such commentators, there is a positive right, the right to capital, in this case. Here, if A has a right to capital, then B has an obligation to give A a capital. But from whence springs this right? In the case of negative liberty, it is easy to answer this question: the right not to be exploited stems from the libertarian non-aggression axiom. To violate negative liberties is to act incompatibly with this axiomatic right. But this does not at all follow when we are considering "positive" rights. Here, the obligation to give the recipient capital (or, more typically, food, clothing and shelter, meaningful life experiences, whatever) actually amounts to a justification of theft. For, assuming that A and B are at arm's length from one another (neither has previously violated the negative rights of the other), there is simply no justification for forcing B to give *anything* to A[6]. If this is nevertheless coerced, it amounts to a theft. Presumably, the "justification" for this compulsion is that B is richer than A. But why should mere riches, presumably earned in an honest way[7], give anyone poorer a blank check on other people's property. Yunus vouchsafes us to answer to this important question.

D. Tucker

Tucker (1995) is particularly scathing in his assessment of micro-finance, Yunus-style: If Grameen can give loans to poor women without assets, why can't Citicorp? Why are Western bankers keeping money from the poor? It must be greed, cultural barriers, bad training, or racism. Lack of collateral is but an excuse for hatred of the poor [...]

It turns out, however, there's more to Yunus's banking scheme than meets the eye. Grameen is not a bank at all. Deposits from individuals and firms account for a mere 3% of its assets. The bank actually functions as a conduit for huge grants from governments and international agencies. That aid is then used as the basis of a credit pyramiding scheme that not only provides micro-loans but also funds a creepy form of feminist social engineering that wars against children and marriage.

Contrary to legend, Yunus wasn't an independent entrepreneur when he started his bank. He used his personal wealth and high-level connections to arrange special privileges and millions in subsidies. Before the Grameen Bank lent one Taka, he had government backing for fully 60% of its operations.

The UN International Fund for Agricultural Development provided Grameen with its first major loan of \$3.4 million. That Fund has consistently pumped money in ever since. In addition, Grameen receives grants and subsidized loans from the governments of Norway, Sweden, Canada, Germany, and even the Ford Foundation in the United States, not to mention the IMF and World Bank.

If the funds aren't given as gifts to Grameen, they are lent at below-market rates, usually 2%. Grameen Bank then deposits that money in fixed-term and short-term accounts in commercial banks that pay higher rates. Grameen makes a killing by pocketing the difference.

The bank says this is merely arbitrage, but if private citizens did this with government funds, it would be called graft. These ill-gotten profits are then used to pay 12,000 staffers and subsidize the loan operations that everyone claims work so well.

IV. A critic of micro-finance *per se*

Micro-finance, as we have seen, is highly problematic because of the negative baggage it carries, mainly its association with Yunus, the UN, Soros, feminism, etc. But, suppose, just suppose, there were an imaginary micro-finance not at all encumbered in this manner, a sort of "pure" or Platonic micro-finance, untainted by any of these associations. Would even such an initiative be free of objections? It would not. That is, micro-finance is *per se* unacceptable, and not just because of the present negative baggage it brings in its train. Consider the following criticisms in this regard.

A. Market failure

The claim now commonly made in behalf of micro-finance, thanks to the Grameen Bank Association with it, in effect accepts the argument that there is market failure, a view that is false. There is no such thing[8], the claims of some advocates of micro-finance to the contrary notwithstanding.

There are three economic institutions: the private market, the voluntary charitable sector and the government. The first two are voluntary, and hence, from a libertarian point of view (Bergland, 1986; Boaz, 1997; Friedman, 1989; Hoppe, 1993; Murray, 1997; Nozick, 1974; Rothbard, 1973, 1982; Woolridge, 1970) legitimate; the latter is not.

Micro-finance is commonly undertaken by both the state and philanthropists. This means that there is a lacuna in the for-profit sector of the economy. That is not a serious omission; after all, there are other market lacunae that the voluntary sector addresses: friendship, spirituality, handball leagues, chess clubs, baby sitting coops, etc. But micro-finance is addressed to *poverty*, a quintessentially *economic* phenomenon. Advocates of free markets cannot take much comfort from that sort of lacunae.

Why, then, do not ordinary banks engage in micro-finance? One hypothesis is that there are government limitations on free entry into this industry. But this can be only part of a full explanation. For it opens up the question of why do not the present monopoly-protected banks engage in these sorts of loans; they would, presumably, did they think it in their interest to do so. A reasonable surmise is that the profits to be had in this sector of the economy, if any, are too small. This is turn reeks of government interferences with markets: limitations on collecting bad debts, lack of debtors' prisons, vicious attacks on the repo-man (Rockwell, 2006), etc. But even apart from that, given that we are never in equilibrium, it is not sufficient that an activity be undertaken just because it is profitable; it must be *more* profitable than alternatives. If present banks thought so,

they would already be involved in micro-finance, abstracting, again, from limitations on bank entry, usury laws, interferences with debt collection by government[9].

The causes of poverty are two: low IQ (Lynn and Vanhanen, 2002), and government interferences with markets and private property rights (Gwartney *et al.*, 1996, Gwartney, 2006; Smith, 1776). Focusing attention on micro-finance takes attention away from these two basic causes.

If advocates of micro-finance favor this system because there is nothing that can be done about low IQ, nor our present socialist fascist[10] system, and are resorting to micro-finance because they want to reduce poverty, then there would only be one problem: it does not, cannot and will not work. But, the typical advocate of micro-finance makes up such concessions. In sharp contrast, he maintains that micro-finance is good *per se*: he thus in effect takes a swipe at the free enterprise system whether he means to do so or not, because here is something, seemingly, that markets could do, but are not.

Forget about curing more poverty for the moment. Let us reflect on the gains in this field that have already been made. Why is it that even very poor people nowadays – at least in Western countries – commonly have at their disposal things like color television sets, air conditioning, radios, dishwashers, electric washers and dryers, light bulbs, electricity, toasters, refrigerators, restaurant meals (at McDonalds levels), cars (small second hand ones) to say nothing of things like medical and dental care? Is it because of micro-finance? Of course not. Would micro-finance, even on a vast scale, have ever enabled the poor to be able to avail themselves of these things? Such a possibility is hard to imagine. Instead, the explanation for this happy state of affairs is, as Von Mises (1956, p. 49) would have it[11], mass production, based on remnants of a free society, and capital accumulation that benefits all income groups, but the poor[12] relatively more than the rich[13].

We already have a sort of micro-finance, moreover. It is called getting a job, spending less than you earn, saving the remainder, accumulating these funds, and, eventually, opening up your own single proprietor small shop or business enterprise. Tiny firms have been arising in this manner from time immemorial, without a bunch of do-gooders casting aspersions on markets and the free enterprise system by offering the modern version of micro-finance. The precursors of our modern supermarkets and department stores were (pushcart) peddlers. They did not need any modern micro-finance, nor, in this earlier time, would any have been offered to them. Instead, they started businesses in this old fashioned way.

B. Specialization and the division of labor

Micro-finance is also an attack on specialization and the division of labor. Not everyone can become an entrepreneur. Poor people are the least likely candidates. What keeps many poor people in poverty (apart from low IQs and government interference) are high time preferences for present consumption.

To subsidize the poor into becoming entrepreneurs, whether privately or publicly, goes against this vital insight. The capitalist is the risk bearer, he cannot come back to his workers, after the product fails to sell, and demand the return of the wages he paid them. He offers his employees *time* during which the production process takes place. Were it not for him, the workers would have to invest in their own tools, plant, equipment, etc. As well the entrepreneur is the business organizer, the leader, the initiator. It is irrational to think that members in all sectors of the economy, particularly including the poor, should be equally able to accomplish these tasks.

Let it be said loudly and clearly, provided that the state does not subsidize it, there is nothing incompatible between the libertarian philosophy and micro-finance. If vicious opponents of the market, and, yes, even supporters who ought to know better[14], want to finance small loans to the impoverished (without clarifying the context in which they do so), let them by all means go ahead. They do not at all thereby violate the libertarian axiom of non aggression. It is an entirely licit operation. But let us not lose all sense of proportion about this latest fad. It constitutes an indirect and philosophical attack on free enterprise, and those of us who wish to defend this system, are entirely within their rights to offer criticism of it, but not, of course, to call for its elimination by law.

C. The seen and the unseen

We cannot leave this subject without reminding ourselves of Bastiat's (1964) and Hazlitt's (1979) "the seen and the unseen." There are only so many shovels, beads, ovens, lawnmowers, real estate spaces, scissors, etc. in the economy at any given time. To give these to the recipients of micro-finance is to take them away from others, who in the normal course of events, without micro-finance, would have been entrusted with them. Which is the more deserving class of recipients of such largesse? Who is more likely to make better economic use of these scarce resources? To ask this question is to answer it. Loans, presumably, in the free society, are given to those who have creditworthiness, not handed to the undeserving on a silver platter. The early pushcart peddlers earned their status as borrowers. The same cannot be said for modern recipients of micro-finance.

Here is how Hazlitt (1979, pp. 41-4, emphasis added by present author) sees this matter: consider:

[...] a loan to provide capital – often to set the farmer up in business by enabling him to buy the farm itself or a mule or tractor, or all three.

At first glance the case for this type of loan may seem a strong one. Here is a poor family, it will be said, with no means of livelihood. It is cruel and wasteful to put them on relief. Buy a farm for them; set them up in business; make productive and self-respecting citizens of them; let them add to the total national product and pay the loan off out of what they produce [...]. And the loan, concludes the argument, costs the government and the taxpayers less than nothing, because it is "self-liquidating."

Now as a matter of fact that is what happens every day under the institution of private credit. If a man wishes to buy a farm, and has, let us say, only half or a third as much money as the farm costs, a neighbor or a savings bank will lend him the rest in the form of a mortgage on the farm. If he wishes to buy a tractor, the tractor company itself or a finance company, will allow him to buy it for one-third of the purchase price with the rest to be paid off in installments out of earnings that the tractor itself will help to provide.

This argument will seem plausible only as long as we concentrate our attention on the particular borrowers whom the government supplies with funds, and overlook the people whom its plan deprives of funds. For what is really being lent is not money, which is merely the medium of exchange, but capital [...]. What is really being lent, say, is the farm or the tractor itself. Now the number of farms in existence is limited, and so is the production of tractors (assuming, especially, that an economic surplus of tractors is not produced simply at the expense of other things). The farm or tractor that is lent to A cannot be lent to B. The real question is, therefore, whether A or B shall get the farm.

This brings us to the respective merits of A and B, and what each contributes, or is capable of contributing, to production. A, let us say, is the man who would get the farm if the government did not intervene. The local banker or his neighbors know him and know his record. They want to find employment for their funds. They know that he is a good farmer and an honest man who keeps his word. They consider him a good risk. He has already, perhaps, through industry, frugality and foresight, accumulated enough cash to pay a fourth of the price of the farm. They lend him the other three-fourths, and he gets the farm.

There is a strange idea abroad, held by all monetary cranks, that credit is something a banker gives to a man. Credit on the contrary, is something a man already has. He has it, perhaps, because he already has marketable assets of a greater cash value than the loan for which he is asking. Or he has it because his character and past record have earned it. He brings it into the bank with him. That is why the banker makes him the loan. The banker is not giving something for nothing. He feels assured of repayment. He is merely exchanging a more liquid form of asset or credit for a less liquid form. Sometimes he makes a mistake, and then it is not only the banker who suffers, but the whole community; for values which were supposed to be produced by the lender are not produced and resources are wasted.

Now it is to A, let us say, who has credit that the banker would make his loan. But the government goes into the lending business in a charitable frame of mind because, as we say, it is worried about B. B cannot get a mortgage or other loans from private lenders because he does not have credit with them. He has no savings; he has no impressive record as a good farmer; he is perhaps at the moment on relief. Why not, say the advocates of government credit, make him a useful and productive member of society by lending him enough for a farm and a mule or tractor and setting him up in business?

Perhaps in an individual case it may work out all right. But it is obvious that in general the people selected by these government standards will be poorer risks than the people selected by private standards. More money will be lost by loans to them. There will be a much higher percentage of failures among them. They will be less efficient. More resources will be wasted by them. Yet the recipients of government credit will get their farms and tractors at the expense of those who otherwise would have been the recipients of private credit. Because B has a farm, A will be deprived of a farm. A may be squeezed out either because interest rates have gone up as a result of the government operations, or because farm prices have been forced up as a result of them, or because there is no other farm to be had in his neighborhood. In any case, the net result of government credit has not been to increase the amount of wealth produced by the community but to reduce it, because the available real capital (consisting of actual farms, tractors, etc.) has been placed in the hands of the less efficient borrowers rather than in the hands of the more efficient and trustworthy.

True, Hazlitt speaks in terms of "government" making these loans to A, instead of the forgotten man, B. But the principle is the same whether it is the state engaging in this activity, or a Yunus, or a Soros: A will get the loan, and B will be forgotten in the positive public relations frenzy garnered by the enterprise. Of course Yunus and Soros are also part of the market. They earned their money, we may assume at least arguing, honestly. But, still, those of us who wish to look a little deeper in the matter, may be forgiven for seeing a *difference* between one voluntary transaction and another, and realizing that this loan only goes to the less deserving A because the more deserving B is now frozen out.

D. Infant industry argument

Here, the justification for giving a subsidy to a business is that it is just starting up; as such, it is difficult for it to compete with already established firms. The subsidy is only temporary; it lasts only until the "infant" can get his legs under him, and compete on a fair basis with the "adult" businesses. The case against subsidies for this purpose are several, and overwhelming. First of all, the prudential Economic history is filled with numerous examples of "infants" several decades old, and older (Brantly, 2002; Von Mises, 1983; Murphy, 2003; Rothbard, 2005). Second, subsidies of this sort breed dependency; this is a process easier to start than to end, given that the recipient will plead his "infancy" for as long as he can draw breath. Perhaps the most powerful argument against this sort of government largesse is the realization that *every* firm, at its inception, was an infant, and that *all* infants need "parental" support early in life. Typically, in the capitalist system, it is the *investors* who serve in this role. After all, if the infant prospers and grows to "adulthood," it is these people who will benefit. Where, then, is the case for forcing the general public to take on the responsibilities for subsidizing new ventures? Their *owners* will benefit from success, not the average taxpayer. So, to the insult of misallocating resources in a biased manner (toward some start up companies, not others), we must add the actual financial injury to the long suffering taxpayer of not affording him any compensation if this scheme succeeds.

To be sure, it cannot be denied that the infant industry argument is used to support governmental support of private industry. In the case under discussion, in sharp contrast, the money emanates not on the basis of compulsory tax levies, but rather stems from the *voluntary* charitable decision-making of the private owners of these funds. However, abstracting from that fact, the two cases are *otherwise indistinguishable*. If there anything the typical micro-finance recipient resembles, it is an infant company, with strong emphasis on the first of the two words in this phrase. Indeed, if the beneficiary of the government's support under this rubric can be fairly characterized as an "infant," then the micro-finance borrower can best be considered something even less developed: maybe a fetus company, even a fertilized egg. For at least the firm given funds under the infant industry program has, typically, millions of investment dollars of its own; help to it usually takes the form of a protective tariff. In the case of the recipient of micro-finance funding, there is, patently, no investment forthcoming from the recipient. That is, *none, nada, zip zero*. The recipient of micro-finance aid is an infant par excellence. If it is economically unwarranted for the government to offer special protections to infant firms, the same applies, even more so, to the micro-finance borrower.

E. Mortgage crisis

Once upon a time, there was an ancient and honorable institution in real estate known as red-lining. This was the practice of either engaging in less mortgage lending, or none at all, to areas of the city in which previous such loans were poorly or slowly repaid, or not repaid at all, thus triggering foreclosure. As it happened, such areas were disproportionately populated by racial minorities. Bank policy had nothing to do with racial discrimination (Springham *et al.*, 2008); these commercial institutions were after all profit maximizers. Rather, this pattern was due to the fact that homeowners in these districts had poorer records of repayment than elsewhere.

Federal Reserve Bank of Boston (1992), however, concluded otherwise^[15]. In its view, "discrimination may be observed when a lender's underwriting policies contain arbitrary or outdated criteria that effectively disqualify many urban or lower-income minority applicants." And, what were these criteria that were to be jettisoned? The usual underwriting standards: credit history, down payment, ascertainment of ability to pay, sufficient collateral, level of income compared to size of loan requested, verification of income statements, savings records, etc.^[16].

Despite common sense expectations that lowering such standards would lead to defaults, this viewpoint prevailed, at the behest of the usual "progressive" suspects. In the view of Michael Milken (Sorokin, 2008): "What happened to housing was [...] a disastrous lowering of underwriting standards [...] states Liebowitz (2008):

*In the 1980s, groups such as the activists at ACORN began pushing charges of "redlining" - claims that banks discriminated against minorities in mortgage lending. In 1989, sympathetic members of Congress got the Home Mortgage Disclosure Act amended to force banks to collect racial data on mortgage applicants; this allowed various studies to be ginned up that seemed to validate the original accusation.

Instead, the Boston Fed ruled that *participation in a credit-counseling program* should be taken as evidence of an applicant's ability to manage debt.

Sound crazy? You bet. Those "outdated" standards existed to limit defaults. But bank regulators *required* the loosened underwriting standards, with approval by politicians and the chattering class. A 1995 strengthening of the Community Reinvestment Act required banks to find ways to provide mortgages to their poorer communities. It also let community activists intervene at yearly bank reviews, shaking the banks down for large pots of money.

Flexible lending programs expanded even though they had higher default rates than loans with traditional standards. On the Web, you can still find CRA loans available via ACORN with "100 percent financing [...] no credit scores [...] undocumented income [...] even if you don't report it on your tax returns." Credit counseling is required, of course.

Now what does this commercial perversion of the Boston fed have to do with micro-finance? This should be clear: they are all but *identical* programs. True, the former is again, as in the case of the infant industry, a government initiative, and the latter a private one. But this only means, in terms of libertarian theory, that the latter should be legal, not the former. However, in terms of economic analysis, bankruptcy and renegeing on loan payments, there are strong parallels between the two programs. Are we to learn nothing from government sector failures? That is, there is no reason, absolutely no reason at all, not to expect the same kind of results from not requiring traditional safeguards against non payment in this federal program as in private micro-finance. Traditional lending safeguards are traditional lending safeguards; the only reasonable empirical expectation is that they would operate identically in either of the two sectors. The only difference between them is an ethical one, not an economic one.

V. Objections

Objection 1: voluntary vs legal

How can you oppose micro-finance; it is, after all, totally and completely voluntary. It is passing strange to attack an institution, free market micro-finance, that is purely voluntary.

Response 1. First of all, no it is not; Yunus obtains money from government sources^[17]. Second, even if this were not true, all that follows from the voluntary nature of an enterprise is that it should be *legal*; we most certainly cannot infer from this premise that we must *favor* it. After all, there are many, many things that constitute "capitalist acts between consenting adults." (Nozick, 1974, p. 163) of which men of good will need hardly approve. For example, consider prostitution, pornography, feminism, espousing Marxism, positive rights, left wing environmentalism, purposefully mining a gold stream that is less promising than an easily available alternative; spoiling your children by giving them too much money (Goldstein, 2008), etc. None of them are intrinsically coercive; yet, reasonable men of good will may surely be forgiven for opposing the entire lot of them.

Then there is the phenomenon of engaging in the consumption of otherwise acceptable goods and services to an excessive degree: for example, drugs, alcohol, tobacco, or, for that matter, food, gambling, sports, whatever is used a long way past the point of moderation.

If the rejoinder is that these things are *per se* immoral, and that people are justified in opposing them^[18], two responses are in order. First, not all of these things are in fact immoral. Many are, but not all. Second, even if all of them are unethical, well then, so is micro-finance. In other words, if we adopt such a low threshold for immorality that *none* of these acts can pass that test, well, then, neither can micro-finance do so. Alternatively, if financing loans for the poor is considered compatible with ethical standards, then so are at least some of these other objectionable practices.

Consider in this regard the attempt to lure people into partaking of gay experiences, through the writing of novels, the producing of movies, plays, etc. that depict this lifestyle choice in a positive manner. Is this a *per se* violation of the libertarian law against initiatory aggression? No, it is not. No book burning, or play prohibiting, is justified. Such attempts to sway opinions should be *legal*. Whether all libertarians are compelled, upon pain of contradiction, to *support* such initiatives is entirely another matter. But the same applies to an attempt to entice the unwary into over eating, excessive gambling, Marxism, etc.

Objection 2: micro-finance is part of the market; therefore it cannot be an attack on the market

To say that because it attacks an economic problem the market has not *yet* cured micro-finance is an attack on the free market system, is incorrect. If a micro-finance operation is voluntary then *ipso facto* it is part of the market order and hence not an attack on it.

Response 2. This objection must be rejected. Just because a commercial activity is *part* of the market does not at all imply it cannot constitute an *attack* on that institution. For example, the publication of Keynes (1936) and Marx and Engels (1848) were entirely compatible with the ethic of the marketplace. Both books used physical resources (paper ink), labor resources (these authors spent years writing their screeds), intangible resources (advertising, the good will of the respective publishers). In neither case was any fraud perpetrated on the public; they got exactly what was marketed. Yet, it is hard to resist the thesis that these two publications did more to undermine the free enterprise system, perhaps more than any other pair of books. Thanks to them,

in all likelihood, millions of people were killed (Marx and Engels, 1848), and the will to resist government regulation was greatly damaged (Keynes, 1936), perhaps even fatally.

Objection 3: efficient markets hypothesis

To take the position of the present paper would be to say that when investment banks were first developed they also constituted an attack on the free market system because had it been profitable to engage in the activities they undertook, commercial banks would already have done so. This is incorrect. Of course, this argument applies to any new endeavor ever undertaken; such endeavors must be *de facto* attacks on the free market system because, obviously, if they were profitable the free market would have already undertaken them. Since when did you become a believer in and advocate of the efficient markets hypothesis? Although it may well not be profitable for commercial banks to undertake micro-finance because their overhead is too high, it is possible that micro-finance would be profitable for them and the reason they have passed up such a profitable opportunity is because they did not realize it would be profitable. Certainly Steve Jobs passed up an opportunity thereby creating a lacuna in the market which Bill Gates filled. Your argument means that Bill Gates is an example of market failure. In other words, the existence of micro-finance banks in no way constitutes an attack on the free market, save in the fevered minds of statisticians who view any unsolved problem in the entire world as proof of market failure.

Response 3. We must distinguish between two types of micro-finance. One, the Yunus variety, which comes replete with all sorts of socialist, trendy, cultish feminist accompaniments. Two, the pure or Platonic kind of micro-finance, the one unencumbered by this baggage. The thesis of this paper is that *only* the former variety constitutes an "attack" on the market. The latter form is indeed part and parcel of the marketplace. It is as compatible with it, I contend, as were the Packard Automobile Company, Pan American Airlines, United Shoe Machinery Company, and other firms that could not withstand the competitive process. There is one difference however. Micro-finance, and none of these others, has been greeted with an outpouring of financial charitable support from thousands of left leaning political types who would like nothing more than to embarrass the market in this way. Those bankrupt business firms, too, could have been kept alive if, for some reason, there were similar voluntary support from numerous socialists.

Objection 4: bipartite? Tripartite?

Your three-institution approach is not satisfactory and does not comport with your usual way of thinking, i.e. a binary distinction: voluntary vs coerced.

Response 4. I am indeed on record as supporting a binary distinction as the bedrock of economic theory (Barnett and Block, 2008). But, this does not at all mean that dividing the world into two and only two categories is *always* necessary. For example, the world is composed of many, many colors, not just two. The world is comprised of many, many shapes, not just two. To be sure, there are only two categories insofar as invasive and illicit, on the one hand, and on the other innocent and legal actions are concerned. Here, there can indeed be only these two classes of actions[19]. But, *within* each of these there can be an indefinitely large number of distinctions made: geographical (north or south), size of business deal (large or small), occurring in the labor, or the real estate or the raw materials or the wholesale or retail markets. And,

surely, we can also separate those commercial interactions which occur mainly for monetary profit, the market, from those where psychic values play a large role, the voluntary or charitable sector. To not even be able to distinguish the one from the other seems like far too high a price to pay in order to maintain the primordial binary distinction between an action and its alternative or opportunity cost.

Objection 5: profits

As to micro-finance being less profitable than other ventures, if in fact that is the case, so what? If people want to invest voluntarily in micro-finance banks knowing that the profits they earn there will be less than in some other investment, who is to gainsay them? Walter Block with his charge that such banks, voluntary though they may be, constitute an attack on the market order? No doubt a government regulation is called for to prevent such voluntary actions because they constitute market failures.

Response 5. I'll gainsay them, that's what! Profits are a good thing[20]. And if this is so, then *maximizing* them is even more efficacious. Profits are an indication that we are cooperating with each other. And, the higher they are, the more mutual support we are giving each other. To purposefully engage in a less profitable investment, when we could gain more return in a different arena, is to increase wealth, that is, fight poverty, to a lesser degree than would otherwise have taken place. Does this imply with malice aforethought? Only on the part of those who are not economically illiterate. Should this be a *crime*? Of course not, at least not under the libertarian legal code (Bergland, 1986; Boaz, 1997; Friedman, 1989; Hoppe, 1993; Murray, 1997; Nozick, 1974; Rothbard, 1973, 1982; Woolridge, 1970). It does not constitute an invasion of another person or his property. But there is more to life than merely upholding libertarian law. A rich man might buy a yacht, or a luxury automobile, or a grand piano, and blow it up, just for fun; merely to demonstrate that he is rich enough to "waste" resources in such a manner[21]. As long as the debris did not interfere with anyone else's property, he would be guilty of no rights violation. Nor would we even be in a position to criticize such an action from a strictly economic point of view, as "wasteful." From his own point of view, he demonstrated, or revealed, that he favored a state of the world where these possessions were blown up, to one where he used them for more ordinary purposes. We may even say that in doing this, he was maximizing his economic welfare, at least compared to any other course of action he saw as open to him. *But the rest of us still do not have to like his action.* We can still oppose it. We do not have to welcome it. If it comes coupled with explicit derision for the free enterprise system that makes his riches possible in the first place, we can feel free to detest his action even the more.

Objection 6: division of labor

To say that micro-finance goes counter to specialization and the division of labor as if every possible act of specialization and division of labor is a good thing is absurd. Specialization and division of labor should go exactly as far as free people acting voluntarily take them. If Walter Block wants to be a self-sufficient individual on a desert island, that should be his business, and no one has the moral right to denigrate his choice unless they have some rightful claim to his labor or other resources. Should he be forced to specialize in production and exchange with others, i.e. forced to extend the market order against his free will? No doubt yet another government regulation is called for to end that particular market failure.