Response 6: This is a similar objection to the one about not maximizing profits, and can be dealt with along the same lines. Of course people have and should have a legal right not to engage in specialization and the division of labor to a greater extent than they wish. But, what are we to say as economists to an economic plan, micro-finance, that ignores this concept? Simply this: such a program will have less of a beneficial effect than one which took it into account.

Given that we live in a world of limited resources, good stewardship is not something to be blithely ignored. And, not rejecting the division of labor and specialization is surely part and parcel of this effort.

The problem with the objection is that it argues on an all or none basis. It attributes to my argument the view that "every possible act of specialization and division of labor is a good thing." Of course, this is absurd. But this is to build a straw man out of an exaggeration of what I am saying, and then to demolish that embroidery.

I am not at all taking the position that the market is failing because we do not engage in more specialization than we now choose to do. Most people, for example, are entirely happy to brush their own teeth, to eat their own food, to cut their own meat, to wash their own hands, to do their own grocery shopping, to dress themselves, to clip their own fingernails, instead of hiring someone to do these things for them.

Of course, it cannot be denied, charitable giving of the micro-finance variety, too, is part of the market. But it occupies a different terrain in the overall voluntary sector. It is part of the commercial arena; it is an aspect of the philanthropic part of the economy. Suppose a zillionaire such as Bill Gates took it upon himself to rearrange the specialization and division of labor that now exists: he subsidized the ancient and honorable profession of man servant. He trained a whole host of poor people to brush the teeth of other people, to spoon them their food, cut their meat, wash their hands, etc. He subsidized still others into accepting such trainees as employees. Certainly, there is no question, we would not incarcerate him for a rights violation. Is he perverting the marketplace? Now, what do we mean by such a policy sounds, if Gates did this out of sheer enjoyment, as economists we would have to say that his tastes should be added to those of everyone else, and if the world looks a bit different than it otherwise would be but for his efforts, well, then, so be it (Rothbard, 1956; Gordon, 1993). There would be no legitimate argument that he was perverting the extent of the market's specialization and division of labor. After his efforts, this would be different, but not provably deleterious in an economic sense. But, suppose, Gates offered this policy as a cure for poverty. Then, we would be justified in looking askance at his claim. We could say that in the eyes of the general population (everyone else in the world apart from the head of Microsoft), it was the previous level of specialization and the division of labor that was the optimal one. Yes, the poor people Gates trained as man-servants now have jobs. But, this employment is aimed at reducing a "felt uneasiness" that existed only in the mind of this rich donor, and no one else. In terms of curing poverty, and promoting the economic well being of the masses, as they (not Gates) see it, we are entitled to judge this program a failure.

Objection 7: alternative costs
As to micro-finance diverting resources from less to more worthy uses, I say any resources devoted to producing music of the baroque period at the expense of music of the classical or romantic periods is a waste of resources — resources being put to less than optimal uses. But you say, it is my money and I wish to buy baroque music. Therefore, people who want to be able to produce and sell it to me, i.e. I should be free to engage in voluntary commercial intercourse among consenting adults.

Too bad, says I, for if you can have a regulation against voluntary micro-finance banks, then I can have one against that "broke" music. That is, we have another case of market failure. A using his own resources in a way that B thinks is suboptimal. This must call for another government regulation to make sure that no resources are put to (socially) sub-optimal uses.

Response 7: To repeat: it is no part of my criticism of micro-finance to legally prohibit it. "A regulation against voluntary micro-finance banks" is simply not compatible with the libertarian philosophy I favor.

However, not everyone is cut out to be an entrepreneur or a business owner. Let us review how the ranks of this profession are typically replenished. Apart from those who inherit sums of money, or are given them, the tradition is for entrepreneurs to come from single proprietorship. A man starts out as an employee, he saves, eventually, he amasses sufficient funds to be able to afford to work for himself, either part or full time. If he does well, he can hire an employee, and he is off to the races as a new entrant into the field of business ownership. At any given time, there are some people who are on the verge of setting up their own firms in such a manner. In the ordinary course of business, it is they who would get a boost from the banking sector. After all, they have some small amount of collateral, even if most of it consists of good will. They have a record of engaging in commercial interactions. Characteristically, they have purchased raw materials; they have "net a payroll." They have sold the product of their efforts. When they come to the bank, they have something to offer in terms of assurance of repayment. Call this person Mr A, the one who, in the ordinary course of business would have obtained the loan.

But then along comes micro-finance. Do banks under this system look to lend to poor people with this sort of collateral? They do not. Do they aim their loans in the direction of those who have already started a modest, even part-time, business? Again, no. Instead, they seek those without any evidence whatsoever of ability to become an entrepreneur. Hazlitt (1979, pp. 41-4) must be spinning in his grave at this.

Objection 8: economic freedom
Moreover, I should be free to give or fritter away my own money. I should be free to give it to someone who was going to gamble with it or buy and drink. Would you criticize my actions in such cases, not on moral, but on economic grounds, i.e. that they would lead to lower levels of (social) want satisfaction? Would you regulate my behavior to prevent such actions by me? Well, if I can fritter or give away resources, why cannot I make micro loans with the same resources?

Response 8: No one is talking about not "being free" to do whatever one wishes with one's own money. As a matter of technical economics, there is of course no distinction to be drawn between "frittering away" money and using it wisely. One man's "frittering" is another good stewardship. But in the present context, we are making a theological point, not a praxeological one. Here, we may say that drinking so much that you lie drunk in the gutter is an inferior course of action to using the funds for more uplifting pursuits.
Take another case. Suppose a rich enemy of the marketplace, a Soros, is determined to ruin an industry. He picks on a small one: paper clips or rubber bands. How does he proceed? He sells them at a small fraction of his costs, losing money every sale. But, he has plenty of money and determination, and these are small industries. Eventually, he drives all the firms in these two fields out of business[23]. Would this be illegal in the free society? Of course not. Could we even make a definitive statement to the effect that this scheme would reduce economic welfare? We could not do any such thing, at least in any technical praxeological sense. To make any such determination, we would have to utilize interpersonal comparisons of utility, an invalid form of analysis[24]. However, as a matter of thymology, we certainly could do so. From the perspective of prudential judgment we could distinguish Soros’ scheme from the ordinary functioning of this industry.

Is there a real world counterpart to this fanciful example? There is:

A pawn shop lends money to a poor person, and the poor reason is required to provide physical collateral. The poor person then uses the money as he sees fit: to buy food, to pay the cable tv bill, to fix the car that is used to get to work, to purchase clothing that can be sewn into clothing and sold, to acquire tools that can be used in a job, etc. If the poor person generates sufficient cash to repay the loan in a timely fashion, then the person does so, retrieving the collateral that was stored by the pawn shop. If the poor person does not generate sufficient cash, then the person defaults on the loan, and the pawn shop keeps the collateral and offers it for sale[25].

Then, of course, there is pay day lending, or check discounting[26]. Here, the insidious, as long as they have a steady job and a personal checking account, can borrow money against their next pay check from their employer, their personal check to the consumer serves as collateral[27].

Well, what of the effect of the micro-credit initiative on the ancient and honorable industry of lending to the poor, asking them to pawn their possessions as collateral, as well as pay day lending? While there is not as of yet any hard evidence that they have been driven into bankruptcy[28], there is little doubt that this initiative, particularly as it spawns imitators, will have that precise effect.

**Objection 9: morality vs economics**

Now, if what you are saying is that you find attempts to alleviate poverty by micro-finance to be morally reprehensible because you think there are better ways to alleviate poverty, you are certainly entitled to your opinion. But that is all it is: an opinion about morality and not an economics argument against micro-finance.

**Response 9.** I do indeed regard micro-finance as immoral. It is a scheme to undermine the free enterprise system, and I regard that system as the last best hope for mankind. I do also think there are far better ways to reduce or eliminate poverty; preeminently support for the laissez faire capitalism, which has lifted more people out of impoverishment, and into middle class lifestyles, than you shake a stick at. My critique, I insist, is also an economic argument against this type of lending. It focuses on the A’s of the world, and ignores the B’s. Yet, the latter are not only more deserving than the former (this is, admittedly, an ethical claim), but, on the basis of this, are far more likely to invest these funds wisely and repay their loans (this is an economic argument if ever there was one).

**VI. Conclusion**

Should Yunus-style micro-finance be supported by advocates of free enterprise? No; this would play into the hands of the enemies of capitalism. What of a micro-finance completely separated from that background? No, again: this will not help the poor; given alternative cost, division of labor and infant industry argument considerations, it will reduce the effectiveness of the market’s ongoing fight against poverty. Does this mean that those who pursue micro-finance, either as a means of topping the free society, or, out of a mistaken belief that this improves the lot of the poor, ought to be treated as criminals? Assuredly not. Micro-finance is either a mischievous attempt to undermine the libertarian society, or the embodiment of a benevolent, but ill-conceived, attempt to promote prosperity amongst the poor. In *neither* case does it constitute a rights violation. People have a right to fight free markets in all legitimate non invasive manners, including writing, speaking, promoting Marxism, left wing environmentalism, feminism, and, yes, urging adoption of micro-finance. They also have a right to waste their own money, and that of donors, in quixotic attempts to eliminate poverty.

Muhammad Yunus has now achieved world wide notoriety. When he speaks, people listen. This applies to the very rich and powerful. It is too bad that he is not a devotee of Smith (1776). If he were, he would be using the megaphone he has been given to promote free enterprise and private property rights for poor countries such as Bangladesh[29].

States Tucker (1995):

Agree or disagree with Grameen’s feministic-socio-financial engineering, there’s no economic miracle worth copying in the Grameen model. At best, its operations are wasteful and Ponzi-like; at worst, they are parasitical, usurious, and communistic. This would not be viable apart from the government subsidies and financial trickery, facts which prove that its grandiose claims are false. The Grameen Bank’s fame is a consequence of its far-leftist social agenda, not its economic successes.

Since I am making what can only be considered a subtle point, I am going to risk possible repetitiveness, and conclude with yet two more examples.

First, suppose Bill Gates wants to prove that the minimum wage law is an efficacious way of raising pay for the unskilled, and thus alleviating poverty. Whenever the mandated minimum wage level rises in a state, he purposely hires more unskilled workers there in order to obviate the unemployment results that would otherwise occur.

How should we react to this? Analyze this? Should Gates’ nefarious plan be illegal? No. Can we deny that this is part of the market? No. Can we deny that, at least in some sense (Rothbard, 1956), this is mutually beneficial in the *ex ante* sense? Again, no. The low productive workers obviously benefit from the jobs Gates offers them, otherwise they would have scarcely accepted them. Gates, too, benefits, in the *ex ante* sense (heh, I will throw in *ex post* sense for both employer and employee). His welfare has increased. Gates persists in this behavior.

But, is this *all* that can be said about this curious economic episode? Yes, answer the free market supporters of microfinance. I demur. I think there is more, far more, that can be said about it. To wit, there are now not one but *two* senses of profits. Initially, the economic *axiom* about minimum wages reads as follows: as long as there is profit maximizing, or profit seeking behavior, a minimum wage above the productivity level of the workers will unemploy them. However, thanks to our imaginary Bill Gates, this
no longer holds. Now, we have to distinguish two types of profit maximizing behavior. First, there is the ordinary profit seeking. Here, our minimum wage axiom holds true. But second, there is the gate type of profit seeking. In this context, we are forced to amend our axiom: it no longer holds in this sort of scenario.

But more: what are we as economists, as free market supporters, to think about Gates? How are we to assess it? Are we to support it? No, a thousand times no. It is up to us to expose it for what it is (not legal fraud; remember, his actions are entirely legal). It is. If it is not a legal fraud, and thus some criminal behavior, then precisely what kind of fraud is it? It is an attempt to mischaracterize reality: to fool us into thinking that the minimum wage law actually has no unemployment effects. A similar analysis applies to microfinance. It, too, is an attempt to mischaracterize economic reality: the economic reality which claims that demanding collateral, looking at financial history of would be borrowers, is a better way of allocating scarce investment resources so as to maximize wealth than are cockamamie schemes to short circuit usual financial practices.

Second, consider the new "freecountry" movement. This is predicated upon the curious notion that money, literally, is the root of all evil, and, in a just society, should be entirely jettisoned. I am not making this up. "A Freecountry is a free country where there are no financial transactions." Further insights emanating from this quarter include that the "freecountry" movement [...] aspires to create a "transition from a money-based communityless society to a community-based moneyless society." Should this new initiative be banned by law? No, of course not. People have the right to eschew the monetary medium. Does this decision create wealth in the ex ante sense? Yes, of course. If these members of the "freecountry" did not benefit from it, at least in some way, they would discontinue these practices. Are we violating economic principle by pointing out that there are such things as the double coincidence of wants, specialization and the division of labor, that only money can address? Again, no. The first two premises in this syllogism do not preclude the third. No money to facilitate trades, indeed! Back to barter! We might as well adopt the watermelon motto, "back to the Plasticoceans[34]."

It is the same with microfinance. It should not be prohibited by law. Those who engage in it demonstrate, or reveal (Rothbard, 1956) that they gain thereby. But we are not at all barred from pointing out the economic flaws in it, either[35].

Notes
1. Other possible ways of helping the poor from this source would be to employ them shooting arrows up into the air, and catching them in their teeth as they fell back to the earth (I owe this example to Mike Levin): opening up lemonade stands; giving the poverty stricken harmonica lessons and sending them out on their way to earn a living in this manner. Or, curing poverty by making dolls in the likeness of rich people and sticking them with pins, voodoo-style.

2. But did not the left take the lead in opposing the imperialistic war of the USA against Viet Nam? It did. Does this mean that libertarians should have favored an end to this aggressive incursion? Not at all. Only, that those who consistently favor freedom should have distinguished their opposition to this undeclared war from those who linked it with criticism of capitalism, free trade, private property rights, etc. In any case, there is a disanalogy here. USA departure from Viet Nam was an unmitigated good. The same cannot at all be said for microfinance, even apart from its leftist baggage.

3. For more hagiography on micro-finance, see Armendariz and Morduch (2007), Bornstein (2005), Ledgerwood (2001), Peralta (2006) and Yunus (2003). For an unwarranted critique of microfinance (yes, there can be such a thing) on the ground that it charges high-interest rates and is therefore usurious and should be prohibited on both grounds, see Jan (2006).


5. www.graeme.com/rank/the16.html. Another principle is "We shall not take any dowry at our sons' weddings, neither shall we give any dowry at our daughters' weddings. We shall keep our centre free from the curse of dowry." But is not the dowry system a voluntary one? (It is of course not illicit to offer voluntary contract X on condition that voluntary behavior Y will be escheated). How would we in the west feel if engagement rings were prohibited as a means of obtaining a loan? To be sure, this would be voluntary, and thus compatible with libertarian law, but, still, it has a chilly feel to it. When it is realized that without a dowry, marriage is made more difficult in many underdeveloped countries, we see the cult for what it is an attack on marriage and the family. Many religious people ought to be at least discomforted by such an initiative.


8. If "market failure" is interpreted to mean that markets consist of the actions of human beings, and that members of our species sometimes, often, err, then of course we acquiesce in this notion. We only reject this concept as ordinarily applied to monopolies, public goods, externalities, etc. (Anderson, 1958; Callahan, 2000; Cowen, 1988; Guille, 2005; Higgs, 1995; MacKenzie, 2002; Rothbard, 1965; Simpson, 2002; Tucker, 1988; Westley, 2002).

9. The state only interferes with private debt collection; when it comes to hounding people for back taxes owed, they can be quite insistent.

10. There are of course differences between these two systems. Their very different names must imply some distinction. Under socialism, the government owns outright the commanding heights of the economy. Under economic fascism the state regulates them. Our present economy embodies aspects of both.

11. In his words: "Capitalism is essentially a system of mass production for the satisfaction of the needs of the masses. It pours a horn of plenty upon the common man. It has raised the average standard of living to a height never dreamed of in earlier ages. It has made accessible to millions of people enjoyment which a few generations ago were only within the reach of a small elite."

12. One of the arguments in favor of micro-finance is that it would lower interest rates, particularly for the poor. Sokhale (2009) casts doubt on that conjecture.

13. The light bulb banished darkness from the home; the castle already had candles; the automobile enabled the poor to ride, the rich already had horses and carriages.

14. The Economist (2007) magazine is often an intellectual force for free enterprise. Yet, even they have been taken in by Yunus and his micro-finance.


16. In a Saturday Night Live skit Eddie Murphy put on white make-up so as to witness the "real" way in which Caucasians treat blacks with regard to mortgage lending. He ascertained that when whites deal with other members of their own race, they do not require any collateral, verification, whatsoever. This is only required of African-Americans. Evidently, the Boston
20. According to Gwartney and Lawson (2006, p. 54), the 2004 Bangladeshi economy was in such dire straits, and thus its people suffering from impoverishment, because of too much “government enterprise and investment” (it scored only a four out of a possible ten), poor “legal structure and security of property rights” (2.7), lack of “freedom to exchange with foreigner” (5.4), excessive “regulation of credit, labor and business” (5.4). Nowhere is there any mention of insufficient micro-finance.

www.google.ca/search?hl=en&q=freemoney&bltG=Google+Search&meta=
www.greenlivingtips.com/blogs/173/freemoney-community.html
www.treehugger.com/files/2008/02/freemoney_pilgrim.php
www.green.on the outside, red on the inside.
23. Green on the outside, red on the inside.
24. www.google.ca/search?hl=en&sa=X&oi=spell&resnum=0&ct=result&cd=1&q=%22back+to+the+plus+Peiseco%22+spell=1
25. For the unraveling of this scheme in India, due to defaults, see Polgreen and Bajaj (2010, p. A5) and Bahree (2010). For a defense of micro-finance in view of, in spite of, these latest findings, see Rathke (2010) and Arunachalam (2010).

References