

Microloans and Austrian Capital Theory

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Introduction

Many people around the world are much wealthier than the generation that preceded them; however, far more people have languished in impoverishment generation after generation. In an attempt to solve this problem, the idea of microcredit has been implemented by many organizations. Muhammad Yunus won the Nobel Peace Prize in 2006 for his development of the concept of micro-credit (Morduch 2008). The purpose of microcredit is to provide banking services for the poorest of the poor allowing them to access capital (Morduch 2008). The idea of microloans has generated a large amount of enthusiasm but with the growing hype also came questions of effectiveness. The goal of microloans seeks to encourage economic growth in developing nations. This growth supposedly will rise out of a network of grassroots entrepreneurs who are funded by the charity of developed countries. The first world is enamored with the idea that they can help people help themselves, instead of constantly supporting the third world with standard charity.

Austrian capital theory examines the idea of economic growth and how it occurs within a free economy. Capital theory starts with the process of saving and logically shows how human action occurs throughout time to produce the capital structure that drives the economy. As the capital structure lengthens, the economy grows and creates more wealth. This paper seeks to take the idea of microloans and juxtapose it on the Austrian school's capital theory. This seems appropriate as microloans seek to create wealth and economic growth and the Austrian capital theory explains how economic growth occurs through the utilization of capital. The meshing of these two theories could

shed light on the microloan controversy to provide answers to questions that have arisen from the results of microloans.

Austrian Capital Theory

Before an understanding of how microfinance can fit into the mechanics of investment, it is important to grasp how the Austrian capital structure works. The foundation of capital theory boils down to subjective value and way humans act on these values (Huerta de Soto 1998, p. 266). Action reveals the valuation of individuals and how these individuals utilize scarce resources (Huerta de Soto 1998, p. 267). This involves planning on the part of the actor, as they must decide how they will put their resources together in a way that can achieve their ultimate goal (Huerta de Soto 1998, p. 267). This planning process does not need to be exterior or even necessarily consciously done, but simply the application of particular means to bring about a desired end (Huerta de Soto 1998, p. 267). The actor could misallocate means, which would result in an unexpected and perhaps differently valued end. If this occurs, the actor will need to reevaluate the assumed connection between ends and means.

In addition to the subjective value and scarcity of resources, a capital good relies on time because human action takes place in time (Huerta de Soto 1998, p. 268). Actors are aware that choices take place in time and the significance of time rests on how the actor perceives time (Huerta de Soto 1998, p. 268). Economic actors use capital to engage in action through multiple stages in order to bring about the ends they desire (Huerta de Soto 1998, p. 268). All action uses time and thus time becomes relevant through the process of utilizing means (Huerta de Soto 1998, p. 269). As the process of action lengthens the desired end must be valued more highly than if the process was

shorter (Huerta de Soto 1998, p. 169). As more stages in the action process lengthen and increase the end must become more complex and more valuable (Huerta de Soto 1998, p. 269). Throughout their action, people prefer present goods and services to future goods and services, everything else held equal, this is the basic conception of time preference (Huerta de Soto 1998, p. 270). Achieving goals sooner rather than later is more desirable to actors, as opposed to preference or indifference to postponement (Huerta de Soto 1998, p. 270). Temporal space becomes significant, as it is an additional factor in the cost benefit analysis (Huerta de Soto 1998, p. 271). In this way, goods are ordered according to their proximity to how the actor wishes to use the good with a first order good being the closest (Huerta de Soto 1998, p. 268). So a first-order economic goods is a good ready for consumption by the actor (Huerta de Soto 1998, p. 268). Higher order economic goods are those which are higher up in the stages of production and temporally farther away from the actor's desired end (Huerta de Soto 1998, p. 268). The economic order of a particular good can differ depending on who employs the good. For example, the baker considers the flour, egg, and yeast are first-order economic goods because the baker "consumes these in the process of making bread; however, the customer of the bakery would consider these same ingredients to be second-order economic goods because the bread is the first order good for the consumer.

Capital goods then are an important part of the action process as they are the higher order economic goods that aid the production of lower order goods (Huerta de Soto 1998, p. 272). What qualifies as capital is determined then by the economic actor. The actor must evaluate how the means can be structured to produce the desired end (Huerta de Soto 1998, p. 272). In this way, capital goods bear no intrinsic property other

than the perception that they will help the actor attain his goal (Huerta de Soto 1998, p. 272). Essentially capital goods are formulated from three factors time, land, and nature, which are combined in a multitude of ways (Huerta de Soto 1998, p. 273). However, capital can only be produced through the action of economic saving (Huerta de Soto 1998, p. 273). In the study of economics, saving means the laying down of present consumption, without saving capital formation is impossible, as capital must be produced (Huerta de Soto 1998, p. 273). In saving, resources are moved away from first order goods and used instead on higher order goods to streamline the production process (Huerta de Soto 1998, p. 174).

The conception of capital can be clearly understood in the construction of a Robinson Crusoe model (Huerta de Soto 1998, p. 174). This model allows the understanding of capital theory in a simplified economy with only one actor and no exchange (Huerta de Soto 1998, p. 274). Suppose Crusoe feeds himself on the island by catching and eating fish that live just off the coast of his island. On a typical day perhaps can catch two fish with his bare hands, but this is a slow process that requires patience and has a low rate of return. Suppose Crusoe thinks he could catch ten fish if he were to use a net on his fishing expeditions. However, because Crusoe lives by himself there is no way for him to obtain a net other than fashioning one himself. The production of such a net would cost Crusoe something and he must decide whether the benefits outweigh the costs of production. In the production of the net Crusoe must use natural resources to make the net as in some kind of string or another that would need to be fashioned out of tree bark or wool. In addition, Crusoe must give labor to the production of the development of the net that is he must work to twist and tie the rope into a useful shape.

Lastly, time must be devoted to the production; time that could have been spent working on direction production, such as catching fish. Crusoe must forgo the income of fish during capital production if he wishes to produce the net though the net would allow him to efficiently catch more fish in the future. The reality of this boils down to Crusoe's need to save so he does not have to go without food over the period of time where he produces the net. Crusoe must save some of the fish he catches each day and postpone present consumption for greater future consumption. The production process is only possible when saving happens before the production of the capital good (Huerta de Soto 1998, p. 275). So Crusoe stops fishing when he feels he has a sufficient store of fish and begins to produce the net. When Crusoe completes the net he now possesses a capital good which is a stage of production higher than the fish. This capital good is temporally removed from the production process by how much saving has taken place to bring about the capital good (Huerta de Soto 1998, p. 275). Now this capital good increases Crusoe's production of fish to eat, as this process is more efficient and fishing takes less time Crusoe can devote more time to other tasks like building a shelter or collecting coconuts (Huerta de Soto 1998, p. 276).

For capital formation, processes of entrepreneurship and innovation must be undergone because entrepreneur must realize the causal relationship between the capital and the end (Huerta de Soto 1998, p.276). So in Crusoe's case he must understand the benefit of the net in order to forgo fishing (the production of a consumption good) for a couple of days which takes some entrepreneurial foresight (Huerta de Soto 1998, p. 276). Part of this foresight that Crusoe has includes the proper amount of saving in order to engage in the production of the capital good (Huerta de Soto 1998, p. 276). He would

quickly become hungry if Crusoe underestimated his saving and ran out of food in the middle of producing the capital good (Huerta de Soto 1998, p. 276). In this way, it becomes important to coordinate production with saving and to apply savings in an efficient manner (Huerta de Soto 1998, p. 276). At the same time Crusoe does not want to over save for his capital goods because then he would restrict consumption for needlessly and decrease his utility (Huerta de Soto 1998, p. 276). So Crusoe ideally wants to coordinate saving with his investment into capital as exactly as he can; no more, no less (Huerta de Soto 1998, p.276). It is time preference that drives this whole process, as Crusoe realizes there are limitations to how long he can take to produce a capital good and how much consumption he is will to forgo (Huerta de Soto 1998, p. 276). Time, in effect, limits what capital projects based on size can be undertaken (Huerta de Soto 1998, p. 276).

In the real economy many people save and invest simultaneously, those who engage in the saving, which allows for the production of capital goods, earn the title capitalist (Huerta de Soto 1998, p. 277). In an economy with more than just Robinson Crusoe, it becomes possible for saving to occur by one person and the actual production of the capital goods happen by someone else (Huerta de Soto 1998, p. 278). Resources are freed by the capitalist who restricts his or her consumption in order to save (Huerta de Soto 1998, p. 277). In the modern world of production, structures have much more complexity than in the Crusoe model, where they include a great number of stages of production as well as laborers (Huerta de Soto 1998, p. 278). The wealth of a society ultimately rests on the amount of capital that a society owns and with which a society produces (Huerta de Soto 1998, p. 279). Wealth is not about the work ethic of a culture

per se because the society with more capital goods has more productive labor (Huerta de Soto 1998, p. 279). The society must first save in order to build up its capital stock and as a country accumulates capital its labor produces more and thus gains wealth (Huerta de Soto 1998, p.279). This in a sense builds up a stock of time as each capital good reaches closer in time to the consumer good (Huerta de Soto 1998, p. 279). So the longer the production process is and the more stages in the process the more productive the capital structure is (Huerta de Soto 1998, p. 279). However, capital is never constant as it undergoes wear and tear on a daily basis (Huerta de Soto 1998, p. 280). Capital goods need to be maintained and replaced in order to continue production at the same level (Huerta de Soto 1998, p. 280). Capital can wear out in both the physical and technological sense as time goes on, so in order to keep a certain level of production saving also must be maintained (Huerta de Soto 1998, p. 280).

Capital goods are added to the capital structure as saving permits but the capital that is formed on the lower stages of production (closer to the consumer good) has more specificity (Huerta de Soto 1998, p. 280). This makes the capital goods more of a challenge to convert should there be a change in demand at the consumption level or mal-investment (Huerta de Soto 1998, p. 281). There could be any number of reasons causing the need to adjust capital goods, which is significantly easier at the higher stages of production (Huerta de Soto 1998, p. 280). Regardless of the reason, the entrepreneur will seek to use his capital good in any way that he can so the investment is not a total loss (Huerta de Soto 1998, p. 281). Going back to the Crusoe example, if the fish migrate away a rope that was not fashioned into a net would have more use than a net would. The rope by itself could be useful in pitching a tent where a net, though it still has some use,

could not pitch a tent. People always act with the intent of achieving their ends in the future, but often people make errors in the process with respect to the utilization of capital goods (Huerta de Soto 1998, p. 281). At these points people must re-evaluate and make the most of their resources (Huerta de Soto 1998, p. 281). These errors are revealed through market forces as long as nothing impedes communication (Huerta de Soto 1998, p. 283). The market coordinates the preferences of the actors in the market in so long as it is not subject to coercive forces (Huerta de Soto 1998, p. 283). The coordination within the market system and the capital structure occurs across time and therefore uses interest rates as signals (Huerta de Soto 1998, p.284).

The interest rate exists as an indicator for time preference, as people would rather have a good now than in the future, but they are willing to postpone consumption for a fee (Huerta de Soto 1998, p. 284). As any other value time preference is also subjective meaning the interest rate required by each person will vary (Huerta de Soto 1998, p. 284). So people with a low time preference will accept fairly low interest payments on saving; where, conversely, people with a high time preference will require a high interest rate (Huerta de Soto 1998, p. 285). The market produces a rate that represents present goods in terms of future goods, which is known as the interest rate (Huerta de Soto 1998, p. 285). Savers forgo consumption freeing up resources for those who wish to invest in the present and the tradeoff between the present and future goods is the interest rate (Huerta de Soto 1998, p. 286). There are people saving and investing at each level of the capital structure, as entrepreneurs purchase more goods for production, they consume (Huerta de Soto 1998, p. 286). The real market interest rate includes the inflation premium and a risk premium, in addition to the present to future goods ratio (Huerta de Soto 1998, p.

289). The interest rate communicates to the entrepreneur in a free market, for instance if the interest rate is high then it could be for three reasons (Huerta de Soto 1998, p. 290). First, a country could be undergoing high inflation. Second, it could be the result of a high-risk loan or, lastly, it mean there are few savings available to be loaned (Huerta de Soto 1998, p. 290). If it is the last case, the entrepreneur knows to slow in his purchase of capital goods and not expand in to new projects (Huerta de Soto 1998, p. 291).

Charitable Microloans

The thrust of the microloan movement rests on the idea of providing the capital needed to start a small, home business in the poorer regions of the world. It seems that microloans in practice do not seem to fit cleanly into the framework laid out in Austrian capital theory. There are important distinctions to be made in the area of charitable giving as opposed to saving and how these donations play out in the rest of the capital structure. The credit issue by these charitable organizations is not the same as credit issued from banks as it is not driven by profit.

The main distinction between microloans and the standard Austrian capital theory process is source of the capital funds. In microloans from charity, the donors have a fundamentally different mindset then those who engage in the saving process in the capital theory. It is easy to think that these to actions would be the same as they yield similar results in money to be used to purchase capital goods. In addition, the actors in both cases are not coerced in any way to forgo consumption. It is not as if the government is taxing the money away from the rich and giving it to the poor to purchase capital and start their own businesses. The donors give up their money voluntarily in the market system to be used by poor entrepreneurs in the purchase of capital goods.

Furthermore, the both the capitalist and the donor appear to forgo consumption in order to free up the resources so entrepreneurs can use them in the production of capital. The philanthropist, just as the capitalist, seems to restrain his consumption; and perhaps give up a meal at his favorite five-star restaurant so that a woman in India can buy an oven and start a bakery out of her home. So why are the philanthropists and capitalists fundamentally different?

Essentially charity is not saving. Charity offers the appearance of forgone consumption but in reality charity is closer to consumption than saving (Rothbard 1981, p. 61). Charity is not consumption in the sense that the donor gains something material from his philanthropy, but in the sense that charity is an end onto itself (Rothbard 1981, p. 61). The capitalist in order to save must put on hold his consumptive ends. But, the donor has as his goal to give his money away for the benefit of other people; therefore engages in his consumptive ends. This can be known because he chooses to act; his action reveals his preference to donate. The capitalist also reveals his preferences through action and voluntarily parts with his money, but he gains materially from this action. The interest rate on the resources compensates him or her for the forgone consumption. This is not the case with the philanthropist; he completely relinquishes the ownership of his resources and receives no material compensation for these resources. There is no discussion of time preference in relation to donation because the comparison at hand is not between present and future goods but between donating to charity or consuming a good or service. After the donation occurs, the donor has no future ties or interest with the money. Microloans become confusing because for the donor they are

the end unto themselves, yet they free up the monetary resources for the poor in other countries.

The donor, if he or she is a consumer, will be concerned about the product which he or she is purchasing. So the philanthropist will look for what they consider to be a “good” charity, which would be subjective based upon the preferences of the donor (Rothbard 1981, p. 61). In the standard capital theory, capital is exchanged to the hands of a business, which lends to business owners. The bank here functions like any other business, which seeks to maximize profit. The only way for a business to maximize profits in a free economy is to satisfy the customer’s desires more efficiently than other firms. A firm must work to satisfy the ends of those who provide the revenue stream for the firm. This principle is true regardless of whether the firm is a for-profit business or a charitable non-profit. This being said, the goal of the charitable organizations revolves around satisfying the ends of its donors (Rothbard 1981, p. 61). The question really becomes about what are the preferences of its patrons are and what are the appropriate ways for these preferences to be satisfied (Rothbard 1981, p. 61). Presumably, the philanthropists who fuel charitable giving want to maximize the amount of people they help and to help them in a meaningful way. As a result, the non-profit must minimize its costs in order to maximize its incoming revenue from the donors. It seems likely that the donor will view an efficiently run charity that reaches either more people or poorer people as a “good” charity (Rothbard 1981, p. 61).

However, a charity still will not be expected to turn a profit, as it by definition is a non-profit organization. With the microcredit organization jail broken from the strict profit constraint of a for-profit business it can focus on operating in a way the will get

them the most donations (Murduch 2008). Since microloan organizations have made it a goal to reach the poorest of the poor and encourage and encourage rural development, the donation increase when they achieve these goals even if it would not be economically feasible for a for-profit business (Onyuma and Shem 2005, p. 200). Often it is costly to reach the poorest especially for how small the loans for these startup businesses are (Onyuma and Shem 2005, p. 201). The loans provided to these rural areas would have astronomically high interest rates if they were to be provided by a for-profit institution. The non-profit however can charge a much lower interest rate so as to recoup some of the costs of the loan but does not have to make the loan profitable. The issuance of the loans at an artificially low interest rate would mean that demand of these microloans would be superficially high. Demand will be high for microloans because the entrepreneurs will be willing engage in more risky business ventures. It will be up to the microloan agencies to decide which loans to grant, as there will be a plethora of entrepreneurs seeking loans. In the for-profit system, the interest rate would be determined as any other price would and thus the market would clear. Both the potential lenders and potential borrowers would equal and no shortage would be created by an artificially low interest rate.

As there are fewer loans available than people who wish to borrow the non-profit organization must make the decision as to who to issue the loans to. The charitable organization does not have the perfect information to make this decision. However, credit would not expand in the same way that it does in the Austrian business cycle theory because the loanable funds are not artificially expanded. Even the interest rate is held artificially low the number of loans that can be issued will be capped by the amount of donations received by the microloan organization. In other words, some people who

desire loans will not receive loans on account of the microloan agency not having enough money to loan out. Conversely, in the business cycle theory the interest rates are held artificially low by the fiduciary media created by fractional reserve banking. In this instance, the bank creates enough fiduciary media to issue loans to everyone who wants to borrow at the low interest rate. However, even though the artificially low interest rate set by the microloan institutions is not as expansionary as the one caused by fiduciary media in the business cycle it can still cause business failures.

As the interest rate is held artificially low more people are inclined to try and borrow, even if their business ventures are risky. Granted some of those who receive loans would be willing to borrow at a much higher rate because they have a solid business plan and therefore are likely to make a profit on their startup business. On the other hand, those who take out loans on risky ventures have a higher chance of defaulting on the loans. This poorly invested capital must then find a way to be reallocated in the production structure. The capital used by these grassroots entrepreneurs is transferable as these are short production structures.

For-Profit

In addition to charitable microloans, there are also the for-profit microloans that are issued by organizations who are seeking to achieve sustainable microloans in the long run. The hope here rests on microfinance institutions, which become profitable and therefore no longer need to be supported by loans. Some of these organizations include Compartamos in Mexico and SKS Microfinance, who raised money through a public offering (Yunus 2011). The charitable microloan institutions have greeted the introduction of for-profit loaning agencies with hostility (Yunus 2011). Muhammad

Yunus has even gone so far as to call these new for-profit institutions loan sharks for their high interest rates (2011). In addition, the for-profits have been accused of manipulated and shifting the goal of microloan dream (Yunus 2011). Instead of focusing on helping the needy by providing capital, they have become centered on profit (Yunus 2011).

However, it seems the for-profit microloan institutions would follow more closely in the Austrian capital theory than the strictly charitable microloans. From the start, a for-profit microloan would not have the same disconnect in saving that the charitable microloan institutions experience. The for-profit institutions have actual savers and investors not just donors consuming charity. The for-profit institutions must satisfy the preferences of the investors, not donors as the charity did. Investors are much more concerned about profits because they expect a return on investment as opposed to the philanthropists who give away their money. It seems perhaps possible that part of the investor's motivation is to provide funds to provide capital for the impoverished.

If the for-profit institutions are successful in the establishment of a profitable institution the saving here is not necessarily new saving but it is a mere shifting of saving from business ventures in the first-world to the grassroots of entrepreneurs. The saving occurs in the same way, but the recipients of the credit are in the developing world. There is no need to suppose that time preference shifted a people started to save more, instead there seems to be this shifting from the larger first-world entrepreneurs to the small business startups in the third world. However, the opportunity cost of the charity moving overseas to these smaller entrepreneurs is the larger entrepreneurs having access to less capital. These first-world producers perhaps are more efficient than the microloan recipient is and could produce more wealth. However, it is not as though the microloans

necessarily indicate an increasing amount of saving in the world because microloans in and of themselves would not decrease time preference of those saving. If savings did not increase then the funding for the microloans must come from already existing savings. The shift from the first world companies raises the question as to whether the savings create more wealth in the first world or the third world. Certainly, the microloans are more risky as the qualifications for borrowers receiving the loans are either not known or insufficient.

Unlike the charitable microloans, the for-profit institutions are obviously constrained by the need to make profit. This effects how the business is run in comparison to the charity based institutions. They cannot spend money to satisfy donor preferences and expect more donations to come in; they must actually issue efficient loans that will be repaid. Part of the difference is the need to charge high interest rates as these small loans are considerably more expensive to keep track of and the risk premium is significantly higher. The risk on these loans is high due to a number of factors that are not an issue for business loans in the first world (Tucker 2006, p. 3). These third world loans are often given to entrepreneurs who have no prior business plan to start a profitable business (Tucker 2006, p. 3). In addition, the entrepreneurs have no records of earning profits that creditors can use to help show the debtors will be able to pay back the loans (Tucker 2006, p. 3). Lastly, the third-world entrepreneur has no collateral to offer up as a guarantee against the loan, so if the entrepreneur defaults there are few options for the lender to try to get the money back out of the loan (Tucker 2006, p. 3). It becomes easy to see how these loans are significantly more risky then the business loans issued in the first world. However, unlike the charitable microloans interest rates are forced to the

market price for credit in order for the institutions to make profit. With interest rates at the market level, the microcredit market would clear, meaning the amount of people willing to borrow at the interest rate equals the amount of people willing to lend. The benefit of this process is the entrepreneurs have a higher cost to borrowing, so many are discouraged from taking out loans that would be risky. Without the interest rate held artificially low as in the case of charitable microloans, less entrepreneurs will be willing to engage in high-risk loans. Hopefully this means that less loans are diverted to entrepreneurs with poor business plans and therefore more successful businesses spring up. As more economically feasible businesses are started, this process could be the engine for economic growth as capital is used efficiently.

Another factor to be taken into consideration is the feasibility of for-profit microloans. Due to the high cost encapsulated in the issuance of such small loans the poorest are not actually reached. The poorest are often found in the most rural areas, which are harder and more expensive regions to deliver loans. In addition, the people in these areas would find it difficult to pay back such high interest rates (Onyuma and Shem 2005, p. 199). Instead of the poorest of the poor being reached, the urban poor receive the lion's share of these microloans (Onyuma and Shem 2005, p. 202). The loans in the urban areas have seen some success as some people have started productive businesses (Onyuma and Shem 2005, p. 201). In fact, some women have taken out multiple loans for multiple start-ups (Engler 2009, p. 83). But once again, this would be a situation where the institution is lending to people who already have at least some access to resources and not meeting the objective of reaching the very poorest of the poor in the world (Onyuma and Shem 2005, p. 200).

Concluding Remarks

Micro-loans have grown in popularity since their conception in the 1970s by Muhammad Yunus (Yunus 2011). However, their success still remains to be questioned as reports of success seem conflicted. The Austrian capital theory reveals how the economic growth occurs throughout an economy. However, the microloan system does not seem to fit seamlessly into the Austrian capital theory. Yet the Austrian capital theory brings to light the problems of the microloan institutions in terms of producing economic growth. It is not that microloans are a terrible idea and should never be implemented. However, the consideration of Austrian capital theory should be taken into account, when considering the validity of microloans.

Austrian capital theory stresses the importance of saving as the main engine for economic growth. It seems the efforts of micro lending institutions are somewhat thwarted by the lack of saving in the microloan process. With charity viewed as a consumption good by philanthropists an important disconnect occurs in the link of Austrian capital theory. The result is the breakdown of the process of economic growth, as the saving does not drive the micro lending institutions. While some small start-ups in the third world may become successful as a result of the microloan programs, charitable micro loans in general will not be the solution that raises the impoverished corners of the world to a place of affluence. Also the Austrian capital theory is important in revealing the problems with the theory behind microloans.

The story from the for-profit microloans bears a little more hope from an economic standpoint. The interest rates would appear to be more of a signal than in the charitable microloans, but as a result are extremely high. The problem with the for-profit

microloans is the pushback from the charitable institutions. The goal of the microcredit is to provide affordable credit to impoverished people around the world, among other objectives. The problem with the for-profit microloan institutions is not as much on the economic end of the equation but on the social-justice end. The for-profit system in attempt to make microloans more strongly connected to the market and its processes have to increase the interest rates on people who already have trouble affording credit. In addition, microloan institutions claim to try to reach the poorest of the poor, but the for-profit struggle to achieve this. In reality, these for-profit institutions only reach those who are in the city and already have access to microloans on some level. So in this way the for-profit institutions also fail to meet the goals set by the microloan initiative.

This whole discussion of microloans begs the question: are microloans worth the trouble at all? Microloans are not the only way for the economy to expand in developing countries. Growth does not mean that people need to work for themselves; it is possible that people will be better off working for someone else (Tucker 2006, p. 3). Foreign direct investment would likely be more beneficial for those who live in the third world, as there is no danger of the possibility of borrowing being trapped in debt they cannot pay back. In addition, the business models of these companies have already been tested by the market and succeeded so they have a greater chance of success. It is known that they have had success as they are expanding into other countries. Despite the efforts to eradicate world poverty through pseudo-market means like microloans, the free market remains the greatest engine for economic growth.

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