What's Wrong with this Picture?

Christian Churches and Microenterprise Development in the Third World

Kurt C. Schaefner

In the last 20 or 30 years, millions of people in the Third World have become poor. The causes of this poverty are complex, and include factors such as population growth, economic policies of wealthy nations, and the domination of multinationals in the world economy. Despite the complexity of the problem, there is a growing interest in microenterprise development as a way to combat poverty.

Microenterprise development involves the encouragement of small-scale, self-employment activities by people in the Third World. This can take many forms, including the establishment of small businesses, the provision of training and credit to entrepreneurs, and the promotion of savings and credit cooperatives. The goal is to provide people with the means to improve their economic situation and gain access to financial resources.

Microenterprise development is often seen as a way to address the root causes of poverty, by empowering people to create their own economic opportunities. It is also seen as a way to promote economic growth and development in the Third World. However, there are also concerns about microenterprise development, particularly regarding its potential to benefit only a small fraction of the population and to create new inequalities.

Third World leaders say many pleasant things on these topics, but showed much more practical interest in proposals for a New International Economic Order (NIEO) promoted through organs of the United Nations. Prices charged by Third World governments for exports were to be stabilized and raised through international price controls, grants of aid to third-world governments were to be increased, and investments by foreigners were to be controlled and made subject to Third World governments; and first World manufactured goods were to be sold to the Third World at a discount, so that they could be taxed more heavily by Third World governments upon arrival.

What do these proposals have in common? They seek to transfer wealth from the more developed countries to poorer countries. In other words, they have no necessary link to a concern for basic needs of the poor within the poor countries, and they elevate the position (and, we shall assume, income) of politically powerful local elites within the poor countries.

A surge of wealth transfers was indeed about to occur, though from a different source. The stinging price increases of oil in the 1970s resulted in massive inflows of wealth from industrialized countries to the oil-exporting Third World. This wealth was loaned out to many other Third World countries, mainly through the intermediation of First World banks—issued as debentures, not invested as co-owners, because of suspicion that equity investing only brought the lenders the financial advantage of multinational corporations. Better to accept the borrowers for acceptance of the risk involved in running an economy (by issuing debentures) than to share the risk with foreigners (by issuing stock certificates).

Did I mention that the debtor nations did not return these loans to political cronies? Or that the debt were largely to finance consumption, government deficits, and safe overseas investments for the wealthy—rather than to serve and enrich the poor? Through local politicians, these local loans could also have generated the wealth that could have paid back the loans. But instead the poor debtors had to pay huge private wealth because local leaders ignored common people's basic needs in order to enrich themselves and their foreign friends.

Consider Mexico and Argentina, who with Brazil were the three countries to which over half of the $700 billion was loaned. In just the last 10 years before the amounts began to default, $30 billion left Argentina and $35 billion escaped Mexico, deposited at the same safe overseas banks that made the initial loans. It had arrived in Latin America as a loan to the sovereign nation, unbacked by collateral; it returned to the U.S. as private investments by the elite. When defaults began in 1982 the total external debt of Argentina was only $45.6 billion. If invested wisely within Argentina, the $30 billion borrowed from the wealthy parents had paid off the loan and left Argentina's total external debt was $84.9 billion, an amount that also could have been serviced easily had $35 billion not been withdrawn by the elite in the preceding four years.

In short, the timing of defaults had little to do with a nation's raw ability to afford repayment. Government defaults (and hanged their common citizens a decade of stagnation and renewed hope) was clear because they could not attract enough new loans to cover their current debt payments. I wish I could pull that off with my mortgage: "What do you mean, I owe you $50 a month? You haven't made any more fresh loans to me over a year. Every month I send you more wealth than you send me. I quit!"

Remember the Third World leaders' disinclination in basic human needs. By now it is evident that the action for basic human needs threatened the position of Third World leaders, the peso policies tended to reinforce it. Efforts are seasoned by educated, well-nourished, prospering populations who begin to understand their status as doormats for the powerful.

By the mid-1980s, First World policy makers were looking for a strategy that might directly address the causes of the Basic Needs emphasis. Funding microenterprise projects seemed a useful approach. The publication of Hernando de Soto's The Other Path (1980) threw leesence on these costs. The book carefully documents the ways in which the affluent countries took profits from the developed countries and gave loans to the poorer nations, who in turn used the money to pay off their debts. The cycle continued, and the poverty of the poorest nations persisted.

"Defends Christianity as a religion for adult minds."

The Saturday Review

Many see Christianity as a religion for children— or for people hiding from reality.

In this book, Dorothy Sayers—with sparkling wit and scathing satire—defends the Creed against all comers. What's more, she gives you the ammunition to do the same.

If you don't share Sayers's enthusiasm for the Creed— or can't articulat your own conviction to others—it's time to get this book. Prevent your own National Church from uttering the Creed, and you'll be sure that it will continue to be defiled.

If you want to give copies of this book to your friends, family and pastor!

The next key dogma the world wants to hear today

Why the church is necessary

Why it's a mistake to make Christianity seem 'chummy' and popular

Revealed the "true, splendid, meaning of the Creed"—and why you should try it

The best way to teach the Creed to "the average man in the pew" —and in your parson!

Your best tactic for arguing with unbelievers

And much more!

Sophia Institute * Box 5284 * Manchester, NH 03101-5284

$12.95 postpaid, 122 pp. To order: 1-800-888-9334
This approach might promote some efficiency. Of course, it might just get people further into debt (since, facing many constraints, credit might not be the one that actually blocks them); or, without changes to the law, it might just lead to greater harm. The importance of this law generally issued with no legislative review or hearings: From 1947 to 1985 the executive branch produced 99 percent of the bank's rules and regulations, which are reviewed by state a mere 1 percent. These rules raise the cost of doing legitimate commerce and getting a deal to property.

Picture a minimum-wage worker who decides to go into business for herself: she finds that getting legal title to even undeveloped desert land in Peru takes 16 months of full-time unpaid work, 207 administrative steps, and costs four and two-thirds years of income at the minimum wage. Getting permissions to establish a legal garment firm (computed of two sewing machines) required 28 days' work and two boats, at a minimum would cost a minimum-wage salary for the period. This is more than enough pressure to keep our minimum-wage worker at her minimum-wage job.

Without any law and no deal to property, there is no collateral for loans that would increase productivity. There is also no incentive to invest, because the investment could not be converted into property should the unpaid labor of the entity. Since the firm is not operating "legally," it has no recourse to enforcing contracts or settling liability claims.

In rushing to promote a sense of vocation among its members, the congregation may risk losing sight of its own vocation and actions consistent with that vocation.

In court to avoid detection and prosecution, firms are forced to remain small, missing the chance for economies of scale. You try running a tailor shop or restaurant where the law changes from day to day, you have no title to the building, your equipment could be confiscated at any moment, you cannot hire more than two employees, you can't advertise for fear of attracting the attention of regulators, and there is no possibility of going to court if your suppliers rip you off. No wonder there is not much of a middle class. But then, that was apparently the motive for this nonsense in the first place.

What is the credit-enforcement agency to do? The confessions of the debt crisis, de Soto's analysis, and the collapse of communism drove many away from emphasizing First World problems for Third World problems, toward acknowledging that, if anything, our successful-in-the-US efforts at encouraging income-generation projects. These projects emphasized training and credit to entrepreneurs at a disadvantage.

This seemed self-evident at the time and were often endorsed by the institutional church, but in retrospect often proved counterproductive or harmful. In the process the gospel was cheapened and dissecting church members outraged. Many things come with wrong or microenterprise projects. It is not at all unlikely that the whole emphasis on them will prove to be misguided and, perhaps, harmful. Such research is necessary, particularly of the marketing and development work.

To involve a congregation in sponsoring credit and training projects is essentially to make a church a bank. Even a church that is able to cover its loan losses and make a modest return on the investments, disbursements, and the entire life cycle of the project, see the entire team, and roughly as many as we know by faith: let the bankers do the banking, the tailors do the sewing, and the doctors do the doctoring, and let all, collectively, each to his own vocation, do the loving.

Central Perk-plexity
Alexis Spencer-Byers

THURSDAY, NOON, MRC THEATER: A group of friends, lounging on a sofa, chat about this and that, making each other laugh, making each other cry. Offering stories of love and loss, of heartbreak and sexual promiscuity, the show is a pool of entropy, yet exhibiting troubling ideological traits. Falling in and out of love, falling a few years apart," banishing" and remarrying. Church, to be faithful to its vocation, must always maintain a wide-open door, both for people who fail and try and fail again, seventy-times-seven times.

This is not to say that churches face a built-in complication, called an "adverse selection" problem by economists. In charging a single interest rate for loans, there is an implicit subsidy to people who at no level of risk would justify a higher interest rate. If the interest rate is too high, the church will be screwed, the church cannot afford to be socialists, eventually driving it bankrupt and causing an injustice to depositors.

Let's face it, churches are at their worst when endorsing economic and political strategies. It is true for the current American presidential campaign, it was true when church researchers worked out the credit needs of small businesses in the 1970s, and it will probably be true for a long time to come. For reasons of integrity, prudence, and justice, it is untrue for churches to be aligned with particular development schemes.

We have a fifty-year-old record of development approaches—beginning with colonization and slavery—