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Microlending: Toward a Poverty-Free World

Muhammad Yunus

By trusting small, impoverished borrowers, Professor of Economics Muhammad Yunus found a way to bridge the gap between economic theory and human reality.

President Bateman, ladies, and gentlemen: Some years back at a conference in Michigan I met a group of students led by a professor from Brigham Young University. They struck me as a very unusual group of young people. Their deep interest in our work and their commitment to the issue of eliminating poverty and hunger made me curious about the university they came from. The group invited me to visit their campus. Although I had hoped to visit BYU someday, I did not expect it to happen soon. But it did happen. I came to BYU last year and became more impressed by the young people I met on the campus. I realized that the group I met in Michigan was not a special group—they represented the general student body.

I am back here again. This time I am here to become a part of BYU myself. Not only do I feel greatly honored to receive an honorary degree from BYU, I also feel lucky that you allow me to join a group of very special people as you are. Thank you for allowing me in.

A university campus always excites me. This is where dreams are born. This is where untoward assumptions and unfounded beliefs are smashed into unrecognizable debris. This is where young minds find their shapes.

I always enjoyed the process of shaping young minds, both as a student, being at the receiving end of it, and as a teacher, playing the role of giving shapes. When I left campus to seek answers to the questions I was grappling with, I gradually got worried about the risk involved in shaping young people’s minds, particularly in the areas of social and economic issues. I started getting the feeling that the world’s worst social and economic problems are unwittingly created in the classrooms because they shape young people’s minds too rigidly, or without enough warning that our knowledge in social sciences is only tentative and that students should not take it as absolute truth.
The Influence of Economics

I faced the conflict between my mind-set and the reality around me when I was teaching economics at Chittagong University in Bangladesh in the early seventies. Soon my enthusiasm for the elegant theories I was teaching started wearing off. Although I enjoyed teaching my students all the brilliant solutions to economic problems, I felt absolutely incapable of dealing with the massive poverty and hunger that existed in the villages around the campus. I soon realized that there was a great distance between the real life of the poor and the hungry people and the make-believe world of economic theory.

In a major way economics is responsible for creating the world that we live in. Interrelationships among individuals, nations, and institutions and the day-to-day activities of all people are shaped in a large way by the role assigned to them by economics.

Economics as a discipline not only attempts to explain what goes on in the sphere of economic activities of people and organizations, but it has also vastly influenced these activities by making people believe in what economics says about who they are and what they should do. Economics textbooks create the mind-sets; mind-sets create the world.

Human Beings in Economics

Economics has committed a strategic mistake in conceptualizing a human being. It has abstracted away from the very essence of a human being. All human beings are creative beings. Each human being has great potential buried in him or her. Economics has reduced human beings to lesser beings than what they are, and consequently still lesser beings than what they could be.

Economics has paid no attention to this creative aspect of human beings. It has created a category called “labor” and put all human beings, except the few entrepreneurs, under this category. As they appear in the textbooks, those in the category called labor look more like draft animals than human beings. They have no creativity, no ambition, no sense of sacrifice, pride, or accomplishment. Worst of all, they have no gender. If you have to squeeze out the very essence of a human being to build a social science theory, who needs that social science? By not incorporating the difference between man and woman and also the basic institution they come from—the family—economics also misses out on important analytical opportunities as a social science.

Economics has assigned creativity only to a select, rather rare category of people called “entrepreneurs.” Entrepreneurs are treated as royalty in economics. Economics has persuaded the world that all other human
beings are born to serve under entrepreneurs. This idea was introduced in economics as an innocent piece of abstraction. Yet it has done very serious damage to the human society by making an individual believe that he or she is fated to serve others. It has influenced the design of institutions, the framing of legislation and policies, and the shaping of politics. Because of this misconstrued vision of human beings, wage employment emerged as the only legitimate source of employment.

Today we would live in a different kind of world if economics had started out with the premise that all human beings are potential entrepreneurs, which they are. All that an individual needs is an opportunity. With this premise in place, the world would pay attention to creating those opportunities because textbooks would have required them.

Another Kind of Economics: Grameen Bank

I decided to learn real-life economics from the people who lived around the campus. The village next door became my university. The poor in the village became my professors. I learned another kind of economics. But this time it was real.

I was trained to believe that all people, as they grow up, should prepare themselves to get jobs in the job market. But, for the poor people I met, the
job market practically did not exist. For survival they carried on economic activities of their own. The economic institutions designed on the basis of textbook knowledge had no intention of supporting them. Through no fault of their own, they were rejected by these institutions.

I was shocked to see how people suffer for lack of access to tiny amounts of money—as small as one dollar. I was surprised to see how much hard work each poor person is putting in just for mere survival. Even then, he or she finds it difficult to stay alive.

People see what they are trained to see. It takes a serious attempt on one’s part to take off the glasses one has been fitted with during student days. I was lucky I could start seeing things differently than I had been trained to see. Problems started looking easier to solve than they had appeared to me previously.

Seeing how the poor people were exploited by moneylenders, I made a list of people who needed the money. I got forty-two people on my list. In total they needed $27. I gave them the money as loans from my pocket.

The people who received my money were very happy. Seeing how easy it was to make so many people so happy with such a small amount of money, I thought I should loan to more people. I wanted to arrange loans for them from the local bank. When I approached the bank, the bank manager said they could not give loans to the poor because they were not creditworthy.

This triggered an action from my side. I wanted to find out whether the banker was right. I gave more loans to more poor people in the village. The loans worked. Everyone was paid back. But the mind-set of the banker was still not dented. I was asked to demonstrate more and more. I continued to do so—from one village to two villages, five villages, twenty villages, one hundred villages, and more. But the mind-set was not shaken loose.

I finally gave up on changing the minds of the bankers. I went ahead and founded a bank myself to continue doing what I was doing. Today that bank, Grameen Bank, lends money to 2.3 million poor borrowers in 39,000 villages of Bangladesh. And 94 percent of our borrowers are women. To date, more than 2.4 billion dollars were given out as loans over the years. The repayment rate is more than 97 percent. Last year alone we lent out nearly $400 million.

Credit plays such an important role in the lives of poor people that I have been suggesting that credit should be accepted as a human right. Credit opens up the locked-in potential of human beings. All human beings are endowed with unlimited potential. Because of barriers created by our societies, individual people never get the full opportunity to bring out their potential.
Credit

It is very surprising that economics never understood the social power of credit. The fact that credit creates entitlement to resources could have immediately triggered the thought that in a social context it could surely play a very significant and sensitive role. Amazingly, economics failed to grasp it.

Since credit creates economic and, hence, social power, the institution responsible for deciding who should and should not get credit, who should get how much credit, and at what terms becomes very important socially.

That’s exactly what has happened. The banking institutions, by deciding that they can do business only with the rich, literally have created financial apartheid. When they announced that the poor were not creditworthy, it was almost pronouncing a death sentence on the poor for no fault of their own. Economics went along with it.

As a social science, economics should have recognized credit as a human right and should have promoted creative efforts to deliver credit to all. If we can redesign economics as a genuine social science, we can be firmly on our way to creating a poverty-free world.

Enterprises Driven by Social Consciousness

Somewhere we have persuaded ourselves that the capitalist economy must be fueled only by greed. Since economics persuaded us that way, we all believed that way. As a result, it became a self-fulfilling prophecy. Only seekers of personal gain go into the marketplace and try their talent. Those who are not interested in accumulating personal wealth and income do not find the marketplace very attractive. They use their talents elsewhere.

The marketplace is open for everyone, even for those who are not interested in personal gain—such as people who get inspired by the prospect of social change for betterment. Social goals can replace greed as a powerful motivational force. Social-consciousness-driven enterprises can be formidable competitors to greed-based enterprises. An individual’s social consciousness and the urge to do good things for people on this planet can be as burning and even a more burning desire than personal gain. Why not encourage socially motivated people to come and play in the marketplace? Instead of grumbling about how a pharmaceutical company makes filthy money by charging unreasonable prices, why don’t we create our own companies and sell good quality medicine at profit-free prices or at prices with low profits? I think social-consciousness-driven entrepreneurs can be an effective force in the marketplace.

Before the world surrenders itself to the current interpretation of the free market—that is, recognizing the market as the playground of only
greedy business people—we must seriously engage in examining the strength of social-consciousness-driven enterprises as players in the same market. Social consciousness does exist in people. But it can be further promoted through creating supportive legislation and a social reward system. If we leave no room for this human quality in our theoretical framework, as we have done in present-day economics, we'll be transforming ourselves into the human beings that we have conjured up—in other words, human beings without social values.

Economics must incorporate within itself a marketplace that is not an exclusive playground for bloodthirsty profit-seekers; instead, it is a challenging field for all good people who want to set the world on the right course.

**The World Created by Mind-Sets**

In my work I have seen repeatedly how difficult it is to change people’s mind-sets once they are formed.

We have created the present world in this particular manner because our minds were trained to behave in a particular set of ways that led to this formulation of the world. If we train our minds to think differently, we can create another kind of world.

For example, we accept the fact that we’ll always have poor people around us. So we have poor people around us. If we had believed that poverty should not belong in a civilized human society, we would have created appropriate institutions and policies to create a poverty-free world. We wanted to go to the moon—so we went there. If we are not achieving something, my first suspicion will fall on the intensity of our desire to achieve it.

**Creating a Poverty-Free World**

I strongly believe that we can create a poverty-free world—if we want to. We can create a world where there won’t be a single human being who may be described as a poor person. In that kind of a world, the only place you could see poverty would be in the museums. School children on tour in the poverty museums would be horrified to see the misery and indignity of human beings in the past. They would blame their ancestors in a massive way for allowing this inhuman condition to continue.

My work in Grameen has given me a faith—an unshakable faith in the creativity of human beings. That leads me to believe that human beings are not born to suffer the misery of hunger and poverty. They have much more important things to do than struggle for physical survival. They suffer from miseries and indignities of poverty because we trained our
minds to accept the fact that nobody can do anything about poverty except by offering charity.

Before I conclude my remarks, I simply wish to encourage all of you to remember: irrespective of what you learn in school, always be ready to unlearn and relearn.

Don’t give up dreaming. Be a dreamer. And keep on trying to make the dream come true. Dream about the world you would like to have. If we all dream about a better world, I can guarantee you that we will create a better world.

Muhammad Yunus, founder of Grameen Bank, received an honorary doctorate and presented this address at the BYU commencement ceremony on August 13, 1998.