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In which we find that a Nobel Laureate was wrong [1]

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No, not wrong in what he did, nor even wrong about the good effects of what he did rather, in why what he did worked.

Muhammad Yunus was the founder of Grammen Bank and thus the man who set off the micro finance revolution. Perhaps not an entirely new idea but the current success of the technique, certainly its popularity, starts with him. He got the Nobel Peace Prize back in 2006 (although I would argue that he really ought to have got the Economics one).

The idea that the poor are capital constrained is hardly new, nor is the idea that if they were not then they would be able to grow their way out of being poor through business. That Yunus started with his own money and then built a system that removed that capital constraint for millions is what got him the Peace prize. The reason I think he should have got the economics one is that what he really worked out is how to extend credit to those who don't have collateral, can't provide security, for the loan. He organised people into groups, only one of the group being able to have a loan at any one time. The social pressure of the other members pushing for repayment so that they could get a loan is what provided that security for said loan. In effect, he invented peer pressure as credit security.

That, at least, has been the conventional explanation of the success. Yunus' along with other informed observers. However, it seems that this is actually wrong. While this paper is looking at another aspect of micro-loans, they make this comment [3]:

> Third, we find no differences in repayment behaviour between both lending programmes. Giné and Karlan (2010) also compare repayment rates between group and individual lending ? both with mandatory weekly repayment meetings ? and find no significant differences. In our case, neither loan programme included mandatory repayment meetings.

We do know that micro-lending works, that it has decent repayment levels, that it alleviates poverty, is sustainable. It's just that why we thought it works, that peer pressure creates the high repayment rates, seems to be wrong.

Another victory for the market based, experimental, approach to the economy then. For if things work even when we'r wrong about why they work then what hope is there for planning to do things from theory?

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