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MRI Symposium 2020 Abstract

For the MRI October-2020 online symposium on" Towards a New Paradigm of Economics")Three Key Ideas for the MRI October-2020 online symposium on" Towards a New Paradigm of Economics": Credit Cooperatives and Microbanking

What I am proposing is in support of Andrew So's proposal, EXPLORING THE CO-OPERATIVE ECONOMY and ITS SOCIAL IMPACT.

(1) THE PRINCIPLE OF SUBSIDIARITY:

From the perspective of CST, the new paradigm must be consistent with basic principles, namely, human dignity, the common good, and especially the principle of subsidiarity. This principle, which first surfaced in Pius XI's *Quadragesimo anno*, in 1931, was meant as a warning indicating the proper way(s) in which interventions from governments can and should assist persons and families to fulfill their purposes in a modern industrial economy. Such assistance—a *subsidium*, if you will—from "higher organizations" like the State must not usurp the proper functioning of the "lower" entities they are ostensibly trying to assist. Solutions to social problems must respect the dignity of all human beings, the rights of natural associations like families, and the common good.

Subsidiarity in reforming economics (as in constructing a new paradigm) would highlight communitarian solutions, in which local communities based on local networks (starting with families) would try to create their own solutions for overcoming poverty, lack of access to indispensable resources like education, etc. The principle of subsidiarity assumes that the most effective solutions will emerge from dialogue and voluntary cooperation involving the existing institutions of local communities. To be sure, such communitarian efforts will require capital to fund promising initiatives. So there may have to be a certain level of support or subsidy from governments, NGOs, etc, that. have access to capital, but that capital and its allocation must not be used (either in effect or intent) to create dependencies, which are contrary to the principle of subsidiarity.

Such a strategy, consistent with the principle of subsidiarity, is already well illustrated in the credit union movement (as in chapter 20 of Rothlin and McCann, *International Business Ethics: Focus on China*, Springer, 2015), which along with Andrew So, I am proposing as an essential element of the new paradigm of economics.

(2) THE ROLE OF MICROFINANCE IN OVERCOMING POVERTY:

The promise of what can be achieved through credit unions and other credit cooperatives must include reflection on recent successful experience with microbanking as a way to distribute capital to prospective entrepreneurs, while maintaining the necessary circulation of capital, that is, through loans and their repayment, enabling more distribution. This can be illustrated either through an investigation of the Grameen Bank or credit unions in the Philippines or both. In such case studies we can also learn about the obstacles to success for such enterprises. Their great success is in overcoming the moral hazard involved in extending credit to anyone, namely, the risk that the recipient of the loan will be either unable or unwilling to pay it back plus the interest or fee required to maintain the service for others. Success in microbanking, as it is clear from the story of the Grameen Bank beginning in Bangladesh, depends on empowering local networks and organizing them as accountability structures ensuring the compliance of all participants. If I obtain a loan because I have been approved for it by the members of my local community, I am more likely to pay it back, when any default would result in foreclosing opportunities for other members of the community to qualify for their own loans.

Of course, for such a scheme to work, there must be access to capital, that is, the credit cooperative or credit union must create a working relationship with “higher” institutions, private or public, among them conventional banks as well as agencies of the State, any of which can and must be convinced that using microbanking strategies to lend money to the poor is no more risky than lending money to the rich. The great challenge for integrating microbanking and credit unions into a new paradigm of economics (a practical challenge), is how to scale up from promising local successes to a national or global scale of institution building for economic empowerment. How concretely this might be done is laid out in Andrew So's testimony about the ACCU, as it is summarized in Rothlin and McCann, Springer 2015, and developed further in his proposal for this symposium, as well as in Mohammad Yunus’ works on the Grameen Bank. Studying the histories of microbanking enterprises reveals that the moral hazards involved do not simply revolve around the poor who receive such loans. Even greater risks stem from the ways in which administrators live up to their responsibilities, especially if they make loans to themselves, friends and family members. The same rules on repayment must be enforced on them, as well as on any poor members of local borrowing and lending networks. There is also the risk, inherent in success, that the State may seek to expropriate the mircrobanking enterprises, usurp their resources, restrict their access to capital both foreign and domestic, if the State finds it convenient to reorganize them as government agencies. The sad history of credit unions in the Philippines during the Marcos dictatorship (1972-1981) provides ample evidence of the challenges faced when microbanking institutions operate in an environment that no longer respects the principle of subsidiarity.

(3) POVERTY AND EMPOWERMENT:

The observations of Pope Francis, in *Laudato Si’* and other documents, makes it clear that poverty in our world today is not a natural condition, to be endured like other acts of God, like typhoons and earthquakes. Poverty is the result of systemic failure, the corruption of economic systems, their manipulation to favor the interests of some groups over others. The rich are no more moral or deserving than are the poor. Human dignity, if it is truly understood, must learn to set aside traditional prejudices against the others who do not share in our prosperity, whether those prejudices are based on race, creed or color. If a new economic paradigm is to fulfill its promise, we must learn to trust empowerment strategies that are open to all people, and not just to those who are near and dear to us personally.