Microfinance, Basic Capabilities and Happiness- A Theoretical Poverty Analysis

Rahin Chandra Das

Assistant Professor of Economics, Bongaigaon College. Bongaigaon. Assam-783380 (India)

1. Introduction

There are hundreds of inspiring stories about how poor people use tiny loans to start or expand their small business, and experiencing remarkable gains not only in income and consumption, but also in health, education, and social empowerment. Muhammad Yunus claims that microfinance plays a significant role in poverty reduction and it enhances peace (Yunus 1999). Such claims are used not only by Grameen-style microfinance institutions, but also by commercially-driven microfinance institutions. Thus, microfinance has gained importance as an effective tool to alleviate global poverty. Now, question is whether these examples allow us to claim that microfinance does reduce poverty?

To answer this we must go through the viewpoint of Sen’s capability approach and the 33 indicators of 9 domains of Gross National Happiness (GNH).

2. Capability Approach

The key idea of the capability approach lies on the expansion of capabilities of an individual promoting more freedom from deprivation of various challenges like mass-poverty, mass-illiteracy, poor health, low level of living in general and identity crisis of the indigenous people, social conflict and communal discord and loss of social livelihood etc.

in particular, so that an individual can select the kinds of life he enjoys and has reason to value. The expansion of capabilities is accessible through different alternative social arrangements of valuable activities and various dimensions of achievement or functioning (expansion of freedom). The valuable activities, as stated by Nussbaum (2000) should be concentrated on at least ten central human capabilities, namely, (i) life, (ii) bodily health, (iii) bodily integrity, (iv) senses, imagination and thought, (v) emotions (vi) practical reason, (vii) affiliation (viii) other species, (ix) play and (x) control over one’s environment.

3. Gross National Happiness (GNH)

The Gross National Happiness (GNH) was first coined by the 4th King of Bhutan (1729) and it may be defined as “Gross National Happiness (GNH) measures the quality of a country in more holistic way [than GNP] and believes that the beneficial development of human society takes place when material and spiritual development occurs side by side to complement and reinforce each other” (http://www.educatingforgnh.com).

The index weights the nine domains equally and 33 cluster indicators are used to identify whether people have achieved sufficiency or not and create the index. These are stated in Table-1 as given below.

<table>
<thead>
<tr>
<th>Table 1: Indicators of Happiness Index</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sl No</td>
</tr>
<tr>
<td>-------</td>
</tr>
<tr>
<td>1</td>
</tr>
<tr>
<td></td>
</tr>
<tr>
<td></td>
</tr>
<tr>
<td></td>
</tr>
<tr>
<td></td>
</tr>
<tr>
<td></td>
</tr>
<tr>
<td></td>
</tr>
<tr>
<td>3</td>
</tr>
<tr>
<td></td>
</tr>
<tr>
<td></td>
</tr>
<tr>
<td>4</td>
</tr>
<tr>
<td></td>
</tr>
<tr>
<td></td>
</tr>
<tr>
<td>5</td>
</tr>
</tbody>
</table>

4. Poverty as a lack of income vs poverty as the absence or inadequate realization of certain basic capabilities (substantial freedoms)

Defining poverty as the lack of income is questionable in many reasons. First, it is quite true that the concept of poverty does have an irreducible economic connotation. Yet, in reality ‘poverty’ means not only inadequate personal income, but ‘insufficient command over publicly provided goods and services’ as well as ‘inadequate access to communally owned and managed resources’. In other words, the more relevant concept is not income but the broader concept of ‘inadequate command over economic resources’ (Hunt, Nowak, and Osmani 2004: 8). Moreover, the admission that poverty has something to do with one’s command over economic resources does not necessarily entail the primacy of economic concerns in the causation of poverty. For instance, what if a person is denied access to healthcare resources owing to gender or ethnicity? Admittedly, one can argue that this person is unable to have control over economic resources. Yet, the real cause lies in the social biases and political-legal framework that allows this person to be unfairly treated. It would be a mistake to think that this person would be able to access healthcare (to have greater control over economic resources) if his/her income increased. The inability to have command over economic resources plays, at best, a secondary role. Furthermore, every individual has not the same ability to convert economic resources into capabilities. “For instance, people with different biological characteristics (e.g. pregnant women, elderly people) may need different amounts of food and healthcare in order to acquire the same degree of freedom to live a healthy life” (Sen, 1999). It is important to realise that ‘the degree of command over resources that may be adequate for one person may not be adequate for another’ (Hunt, Nowak, and Osmani 2004).

It seems clear, then, that it is not a good idea to define poverty as a lack of income. A better way is to define poverty as the absence or inadequate realization of certain basic capabilities (substantial freedoms). As we have learned, Amartya Sen (1999) asserts that the essence of development is increasing individuals’ capabilities/freedoms, and poverty is one of the infamous forms of un-freedom. The crucial question may therefore be, does microfinance increase or decrease poor people’s freedom? More specifically, does microfinance increase or decrease poor people’s substantial freedoms (basic capabilities)? To answer this question, the assessment of the impact of microfinance on poverty reduction should be measured not only by income, but also by basic capabilities. In short, microfinance should be assessed in terms of income, education, health, and the empowerment of women. As will emerge, microfinance is a relative failure as a poverty-reducing approach in that it does not substantially expand the basic capabilities in question.

5. Poverty and Happiness

From the growing literature on behavioural economics applied to the understanding of poverty, we find that poor individuals suffer not only material scarcity but also a scarcity of mental resources (attention, understanding, cognitive capacity) that explains behaviours that would be qualified as “irrational” by standard economic theory (Jantti, Kanbur, and Pirttila, 2014a). Moreover, not only behaviour but personality traits may also play a role at explaining poverty - for example, optimistic and agreeable individuals are known to be more likely to find a job or a partner with whom to share income.

On the other hand, it is natural to think that the economic condition of a household, as many other domains in life, influences life satisfaction of an individual and so poverty should necessarily be associated with dissatisfaction along with the affects on at least four domains of GNH namely, psychological wellbeing, health, education and living standards. Thus, microfinance should be conceptualized as the measure to reduce dissatisfaction.

6. Conclusion

As the answer to the question on the role of microfinance on poverty elimination, we may state that microfinance should enhance basic capabilities and that will help to achieve substantial happiness through satisfaction of at least a few indicators of happiness.

References


