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## Letters

# On microfinance, America's deficit, the United Nations, the Austrian school, Israel, tea, lumberjacks, spammers

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### Reforming microfinance

SIR – Your leader on microfinance institutions (MFIs) provided the right prescription for the wrong reasons and compounded the misdiagnosis with the wrong headline, “[Leave well alone](#)”, (November 20th). You prescribed “sensible regulation”, but apparently because “MFIs typically have wafer-thin margins” and pressing them to reduce interest rates would hurt their ability to attract private capital and inhibit growth. You argued that slow growth, in turn, would “hamper their ability to harness economies of scale in order to lower transaction costs and cut rates of their own accord.”

Actually, the problem with microfinance in India is the opposite of what you suggest; the largest MFIs have grown fast, overachieved on economies of scale and have very high average margins. Growth itself has become a big problem because it ignores two factors that made microfinance an important tool in fighting poverty: building relationships that were constructive and supportive of clients and outreach programmes to neglected areas.

It is precisely for those reasons that a “sensible regulation” that allows MFIs to take deposits and set rules on capital buffers would be so appropriate. Taking deposits would help round out the present unidimensional relationship of MFIs with their low-income clients. Appropriate rules on capital buffers would reduce the dependence on socially imprudent private investors, who have encouraged growth without regard for the impact on clients. More involvement by the Reserve Bank of India would, in any case, stabilise the industry and reduce the temptation for politicians to stir up populism. So no, do not “leave well alone”; those at the bottom of the pyramid should get the attention they deserve.

Sanjay Sinha  
Managing director  
Micro-Credit Ratings International  
Gurgaon, India

### Overhauling pensions

SIR – You sensibly advocated cutting costs to Social Security in your briefing on ways to reduce America’s deficit (“[Confronting the monster](#)”, November 20th). Why not abolish the programme? There is very little liberal justification for Social Security, given that the private-sector market for planning and saving for retirements is already highly competitive. Furthermore, because of the upper limit on payroll taxes, Social Security is regressive and redistributes wealth to the rich.

Carl Schwab  
Arlington, Virginia

SIR – What difference will raising the retirement age make? With unemployment at 9.6% and additional legions of underemployed and those who have ceased looking for work altogether, do you really believe it is better to keep somebody in their 60s in a job? For three more years, and to produce what?

In the affluent town where I live there are college graduates working on the supermarket checkout and elderly folk (not so recently out of college) bagging the groceries. The jobs once occupied by

high-school kids trying to make some pocket change have been usurped by the overqualified and the aged. Instead of increasing the retirement age we should prolong high-school a few years.

Mario Zapata  
Wilton, Connecticut

SIR – It is extraordinary to me, how, after the failure of fiscal austerity to “reassure” bond markets over the reliability of Greek, Irish and Portuguese debt, *The Economist* does not draw the obvious conclusion that such measures do not work. Simply because measures are harsh or painful does not mean they will be effective. Policy that leads to economic contraction hurts government revenues and makes budget gaps harder to close in the long term.

Aaron Baker  
Portland, Oregon

### Reforming the United Nations

\* SIR – Egalitarianism, democracy, justice—which one of these cherished values of the West is even faintly reflected in the functioning of the Security Council (“[Thinking the UNthinkable](#)”, November 13th)? Where membership of the council is conferred upon the victors of a long-past war, real (America, Britain, Russia) or perceived (China, France); where China (over Sudan) and America (over Israel) can routinely thwart the will of 90% of member countries with their vetoes, so that nothing of note gets done and where a single country can block resolutions at whim, there will always be dysfunction within and frustration at large.

Total consensus is a pipe dream. What is needed, aside from an expansion of the Security Council (think G20) is a withdrawal of veto power from all members, with resolutions being upheld by some agreed-upon level of majority. Anything short of this will remain unworkable, just as it has for the past 65 years. But who will bell the five cats?

Paul Khurana  
Brantford, Canada

### Hayek and von Mises

SIR – Buttonwood asked, “Why is the Austrian explanation of the crisis so little discussed?” (“[Taking von Mises to pieces](#)”, November 20th). The short answer is that the “Austrian school” of economic ideas has not been taught for a long time in any university department; hence the response of the economic establishment that the current crisis could not have been foreseen. Outside this establishment there are some exceptions and one whom Buttonwood did not mention is the estimable Bernard Connolly, who has described the unfolding crisis for over a decade with more accuracy than any other economist on the planet.

Derek Scott  
Economic adviser to the British prime minister, 1997-2003  
London

SIR – The reason why the Austrian explanation is so little discussed is because the Austrian response to the crisis is simply to wait it out. There is nothing to discuss. The Austrian school agrees with Jean-Baptiste Say, a French economist in the early 19th century, that all recessions are the result of an overexpansion of credit. The implication is that a contraction will follow.

Then in the mid-19th century, in “Lombard Street”, Walter Bagehot wrote that if that contraction turns into a crisis, forget about economic theory, just bail out the banks. There is nothing to discuss.

David Parker  
San Francisco

SIR – Buttonwood might find the answer to his question in the quote he cited from Friedrich Hayek: “The curious task of economics is to demonstrate to men how little they really know about what they imagine they can design.”

I can’t imagine economists admitting how little they actually know. If they admit it to themselves it will hurt their ego; if they admit it to others it will hurt their job prospects.

Josef Mattes  
Vienna

### Paying for Israel to co-operate

\* SIR – As you report (“[Fix those border first](#)”, November 20th), it appears the United States has embarked on a bizarre tactic to get Israel to re-engage in the Middle East peace process. With the ironic intent of encouraging peace, the administration is promising Israel \$3 billion-worth of fighter aircraft to get it to commit to the simple step of freezing settlement building for just 90 days.

Given America’s budget deficit, combined with the demonstrated intransigence of the Israeli leadership, this would seem a disastrous use of funds at the rate of \$33m a day.

Craig Mullet  
Guilford, Connecticut

### Tea-party flavours

SIR – Your characterisation of the Republicans as more or less “tannin-stained”, based on the extensiveness of their connections to the tea party, was intriguing (“[Rocking the party](#)”, November 13th.) On that premise, Senator Mitch McConnell must be Lipton, the historic, readily available brand in America that is neither interesting nor strong but will do the trick when nothing else is at hand. Senator Jim DeMint is clearly herbal, at first blush appealing, particularly when you have a nasty hangover, later regretted when it sours your stomach. John Boehner, the next Speaker of the House? Why, Orange Pekoe of course. Need an explanation really be given?

What remains to be seen is whether the rest are English Breakfast or Earl Grey. In other words, can they wake up to a mug of Cameron/Clegg-style fiscal austerity or are they just a bunch of posers covering up lousy policies with flowery rhetoric?

George Clarke  
Washington, DC

### Dressing the president

\* SIR – On the cover of your recent North American edition ([November 20th](#)) Barack Obama looks confident and up to the job dressed as a lumberjack as he prepares to sort out America’s fiscal mess. But he will require protective equipment. As a professional arborist, I would suggest as a minimum: chainsaw-resistant pants, in order to avoid cutting his legs out from under him, goggles, so that his vision stays clear, a hard hat so as not to be debilitated by falling debris, and ear protection for obvious reasons. I notice he is already wearing boots.

Nomar Jose Rubio  
Toronto

### Ground control to major fraud

SIR – How right you were to think that spammers are becoming ever more creative (“[Confidence game](#)”, November 20th). Only last week I received an e-mail from the “Nigerian Space Agency” asking me for assistance in connection with the rescue of a Nigerian astronaut stranded on the Soviet Salyut 6 space station, where he has apparently been stuck since a secret space flight took him there in 1989, never to return after the subsequent demise of the Soviet Union. Ian Fleming would have been impressed.

Julius Hugelshofer  
Paris

\* Letter appears online only

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