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THE PURSUIT OF HAPPINESS: HOW TO MAKE IT POSSIBLE FOR DEVELOPING COUNTRIES

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Abstract

This paper analyzes the benefits of micro-credit and private transfers, and the pitfalls of foreign aid (the main forms of financial support for developing countries). First, it discusses the strengths of micro-credit - drawing on the experience of the Grameen Bank - so as to show its relevance for poor people. As for private transfers, they arrive directly to the family members who have an incentive to spend them in the most efficient way in order to generate income. Third, an overview of foreign aid - drawing on the works of Peter Bauer – is sketched, outlining its weaknesses. In conclusion, it is put forth that people's confidence in their abilities - the fundamental asset to ignite development - plays a specific role in the microeconomic process of wealth production, and represents the criterion after which to measure the effectiveness of the various forms of financial support for developing countries.

Introduction

"We hold these truths to be self-evident, that all men are created equal, that they are endowed by their Creator with certain unalienable Rights, that among these are Life, Liberty and the *pursuit of Happiness"* (U.S. Declaration Independence).

It is already clear from the Declaration of Independence, how an essential character of the American mentality has always been the belief in the *possibility of improvement*. In his 1992 speech, whereby President Clinton accepted his candidature as President of the United States, he stated:

> "As a teenager, I heard John Kennedy's summons to citizenship. And then, as a student at Georgetown, I heard that call clarified by a professor named Carol Quigley, who said to us that America was the greatest Nation in history because our people had always believed in two things- that tomorrow can be better than today and that every one of us has a personal moral responsibility to make it so" (Clinton, 1992).

Undoubtedly, it is here that one of the reasons for America's economic and cultural progress may be found. However, too often is such a characteristic taken for granted in other contexts. In particular, I am referring to developing countries. Too often, in fact, it is believed that by providing these populations with resources, they will – almost naturally – be able to exploit them in the best possible way so as to improve their situation.

Such an approach, however, disregards the most important aspect: what does it take to pursue happiness? In fact, *before* being an activity, improvement is a *state of mind*. It is an inner drive to approach problems *the active way*. And it rests on the belief that, yes, it will eventually be possible to solve them, since, although efforts are bitter, their fruits will be the sweetest. Only then, can the pursuit begin.

As a matter of fact, each human being is endowed with an individual potential, which, if purposefully exploited, can lead to prosperity. Full use of this potential would then allow even the poorest persons to emerge from misery and fulfil their wishes. The question then becomes whether they will ever gain *awareness* of their qualities and abilities.

The foregoing observations provide an intuitive explanation for the argument which I will make throughout this paper. Namely, that the most effective measures for combating poverty in Third World countries might be those that foster, in the concerned populations, the emergence of a sense of self-worth, of confidence in the ability to improve one's condition.

In order to make the point clearer, I provide a brief overview of possible remedies, in order to ascertain the extent to which they enable the attainment of higher levels of confidence, within the populations of developing countries. More specifically, the focus will be on how (i) micro-credit, (ii) private income transfers, with particular attention to remittances from migrants, and (iii) foreign aid influence individual incentives to profitably manage resources.

Finally, I attempt to provide a more sound theoretical basis for the argument herein presented, according to which "confidence-boosting" measures might display higher efficacy in alleviating poverty. In particular, I observe how a common feature of the latter entails the exercise of *individual responsibility*, thereby forcing recipients of the various forms of aid to productively exploit the resources obtained. It is by practicing such an activity that people eventually gain confidence in their abilities, and serve as examples to their fellow citizens. Hence, as larger numbers of individuals begin to participate actively to the material progress of society, I will attempt to show how this could bring about the insurgence of competition, meaning the number one precondition for development.

Micro-credit

Moving ahead, the first measure I shall analyse is micro-credit, which consists of a lending policy first adopted by the Grameen Bank. The essential feature of this institution, established in 1977 by Nobel prize Muhammad Yunus, is that of granting unsecured loans for limited amounts of money.

Although customers of this credit institution belong to the poorest classes of society, insolvency has always been a marginal phenomenon. The reason for this lays in that “no legal relationships […] run between the bank and the customer. [Grameen] establish[es] relations with people, not with documents. [Its] connection relies on trust, and the success or failure of [the] initiative depend[s] on the strength of the personal relationship with the customer” (Yunus & Jolis, 1998). This strategy rests on a deep understanding of the social framework of developing countries, where personal bonds are a powerful driving force within communities and, with respect to Grameen Bank loans, may be the instrument that allows to preserve the incentive upon customers to make profitable use of money entrusted to them. Hence, recipients are enabled to undertake simple investments, thereby learning to earn a living and manage an income.

Furthermore, the Grameen Bank’s lending policy heavily relies on the ability of women to responsibly devote money to productive undertakings such as sowing, cattle raising, and food preparation. In turn, this allows them to earn an income, which they can use to raise their children, send them to school, take care of the elderly, and provide a shelter for their family.

In Muhammad Yunus’s words:

> “Practice has shown that women adapt better and faster than men to the process of self-caring. They are more careful, they commit themselves to building a better future for the children, they show more resilience at work. Money entrusted to a woman for family care yields more than it does when it is laid in the hands of the man” (Yunus & Jolis, 1998).

However, from a macroeconomic perspective, it is not hazardous to infer that the relevance of microlending is limited. The “productive undertakings”, which micro-credit helps the poor engage in, are not important from a quantitative point of view. Often, the problem of Grameen clients might be as simple as collecting enough money to buy the raw material for making chairs. Yet, the relevance of microlending can be better perceived from a different perspective. “Its highest goal is that of helping people develop their potential; it is not, then, a matter of monetary capital, but rather one of human capital” (Yunus & Jolis, 1998).

This directly supports the point I have stated at the outset. In fact, in order to *pursue happiness* or, in more practical terms, to improve one’s condition, not only does it take the abilities, but also the inner belief in their sufficiency for pursuing the desired goal. Microlending, by first providing the means and then confronting recipients with the problem of exploiting such resources, supports this very process.

Private transfers

It is common for migrants working in developed countries to send some of their earnings to their respective families, still living in the country of origin. It was not until recently, however, that economists started to perceive the beneficial effects of such transfers.

In particular, remittances have acquired an important role in alleviating poverty both from a quantitative and a qualitative point of view. In particular, “[p]oor nations reported $167 billion in receipts from overseas workers last year [in 2005] […] more than all foreign aid. Including unrecorded transactions, […] the total exceeded $250 million” (Boudreaux, 2006).

However, “private transfers, by relying on locally held information […] and in part on extra economic motivations like trust and altruism, can overcome many of the problems of adverse selection, moral hazard […]. (Lal & Mynt, 1996). Hence, the importance of such transfers also displays *qualitative relevance*.

In order to exemplify this last statament, suffice it to observe how some empirical works have shown how remittances vary with the income of the recipients. For instance, a study on the Philippines has shown that “the reduction in private transfers is nearly as large as the boost in income that unemployment insurance gives to households. 91% of the increase in household income from unemployment insurance is offset by reductions in private transfers” (Cox & Jimenez, 1993).Yet, remittances might not display a common side-effect of publicly administered income-sensitive transfers (the reduction in recipients’ incentives to engage in productive activities) since an increase in income would result in them losing unemployment subsidies. In fact, the existence of trust bonds among family members could instead help retain the incentive upon recipients to get the most out of the obtained resources. Hence, they would then be confronted with the choice of which activities to pursue, that may yield the most profitable outcomes in relation to their intellectual and practical abilities. In the long run, this can eventually build their confidence in taking care of themselves and turning them into active players of society.

Foreign aid

The last remedy against poverty which I shall analyze is foreign aid. In this respect, British economist P.T.Bauer has provided thoughtful insights on the problem. In particular, his skepticism on the efficacy of foreign aid rested on the observation that developed countries such as Hong Kong and Japan, for instance, have been able to achieve economic independence without needing foreign aid.

Furthermore, he criticized the scant consideration foreign relief programs give to the underlying social and institutional framework of developing countries. In particular, Bauer (1966) has illustrated this through a comparison between the Marshall plan, addressed to European nations after World War II, and contemporary foreign aid (Bauer, 1966). In particular, the Marshall plan favored Europe's "return to prosperity" (Bauer, 1996) since Europe already had a tradition of institutions, government, and socio-political attittudes. The same "recipe", however, may not necessarily work in different contexts, that are lacking such a political and social background. A clear symptom of this is the fact that, whereas Europe's development was back on track after four years, decades of foreign aid have not yielded comparable outcomes in Third World countries.

Thirdly, another important reason behind Bauer's skepticism towards foreign aid is embodied in the following statement:

> "Again, aid represents the import of resources not generated within the receiving economy. This may mean that the skills which would have been generating these resources were never in fact called for or learned, and are not available to use the resources when it is provided" (Bauer, 1966).

In fact, it is often believed that material progress will immediately follow after resources are provided in the form of foreign aid. However, this position diregards the danger of "pauperisation" arising out of the insufficient development of the qualities and attitudes of these populations. Pauperisation denotes “the promotion and acceptance of the idea uneraned doles are a main ingredient in the livelihood of nations” (Bauer, 1966).

This leads to the conclusion that development does not only require machinery or material means, but it should be rather thought of as a *dynamic process* involving the exercise of skill and labor on the part of aid recipients. In other words, human capital should be thought of as a complementary factor to any investment. Otherwise, what might happen is that “imported” productive structures would eventually turn out to be inadequate to the level of locally available human resources. For example, this is what happened in Asia and Afica, where disregarding the latter aspect has left poor nations with virtually unusable agricultural and financial structures.

This is precisely what another distinguished scholar, Barbara Ward, has observed. Developing countries have often been provided with technology, more advanced than they could handle. Clearly, such a relief policy lacked any accurate economic inquiry into the existing productive conditions.

> “The factory chimneys may smoke indeed, but they are factories operating at one-third of capacity and producing goods which nobody can afford to buy locally and which do not compete on the world market. Under such conditions, a country may nominally industrialise and “develop” but in fact its standard of living actually falls” (Ward, 1966).

In sum, “[w]hen foreign aid is given by one country to another it is received not by the people, but by the government: it does not go to individuals or firms in the private sector, but to the central government” (Bauer, 1966). Hence, when relief programs are carried out this way, they establish a system whereby resources are dispensed "from above." In turn, individuals are spurred to take them as *given*, rather than as *earned* and are, therefore, less eager to use them productively, instead limiting themselves to consumption.

Conclusion

In view of the foregoing observations as to incentives cast by different poverty relief measures on individuals, it is necessary to clarify how, economically speaking, confidence in undertaking productive endeavours may lay the foundations for development. In particular, I have shown above how microlending and private transfers, unlike foreign aid, entail the exercise of individual responsability in choosing how to exploit the received resources. In fact, the relationship between microlending banks and the customer is based entirely on mutual trust, which is yet a powerful source of social bonds in the relevant communitites of developing societies. A similar reasoning can be carried out with respect to migrant remittances; here the relationship of trust insists between the recipient and the migrant. In both cases, social sanctions arising out of a breach of trust bonds provide incentives to purposefully exploit the money received.

From this follows that, once people are forced to exercise personal initiative and enterprise, they become progressively more confident with independent decision making and private planning. As this attitude spreads around communities, decentralized planning (individual management of resources) then takes place to larger extents.

To close the circle, the condition of widespread exercise of private initiative represents one of "the prime determinants of development" (Bauer, 1996), in view of the teaching by Hayek (1945) that "[c]ompetition […] means decentralized planning by many separate persons".

In fact, "decentralized planning" allows a fuller use of existing knowledge as to the best uses of resources, since "knowledge of the circumstances of which we must make use never exists in concentrated or integrated form, but solely as the dispersed bits of incomplete and frequently contradictory knowledge which all separate individuals possess" (Hayek, 1945).

The primary extrinsication of such phenomenon may be found in the growth of trade, which, by coordinating the separate actions of different people, "promotes growth; and growth reduces poverty" (Bhagwati & Srinivasan, 2001).

As Adam Smith (1937) put it,

> "As every individual […] endeavours as much as he can both to employ his capital in the support of domestic industry, and so to direct that industry that its produce may be of the greatest value; every individual necessarily labours to render the annual revenue of the society as great as he can. He generally, indeed, neither intends to promote the public interest, nor knows how much he is promoting it. […] he is in this […] led by an invisible hand to promote an end which was no part of his intention. […] By pursuing his own interest he frequently promotes that of the society more effectually than when he really intends to promote it" (Smith, 1937)

In sum, confidence-boosting measures private initiative, which entails decentralized planning and decision making. The spreading of the latter enables the development of market competition, which eventually leads to trade and growth.

Hence, it is reasonable to conclude that, what is needed, is not foreign aid or foreign development plans. Instead, the effort should be devoted at a deeper level, in order to ignite the very spark of progress. This consists of the qualities, experience, attitudes, and abilities of the concerned populations, which cannot be imported or otherwise established from the outside, but only stimulated from the inside.

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