David Ellerman

Much of the subtlety in development assistance and in many other helping relationships lies in the contrast between transactions and transformations. There are the outward behaviors and indicators that are measured in transactions, and there are the inward, subjective transformations on the part of the doers that are the ultimate goals in a helper-doer relationship (e.g., in education, counseling, management, organizing, and so forth). Organizational rationality will tend to focus on what can be counted, measured, or accounted for in an 'objective' manner, while the original purpose of the various forms of assistance lies in the invisible, subjective transformations on the part of those being taught, counseled, managed, or otherwise helped.

Heather Wood Ion has given us a wise and subtle discourse on transformations and transactions, taking as a positive example the WORTH program which combines microfinance and literacy development. I have no disagreement with her arguments or conclusions, but I think it may help to elucidate and triangulate her points if I approach the matter from a couple of different directions.

I think these matters are subtle for a good reason: there is a fundamental conundrum at the heart of any helping relationship. The old cliché "helping people help themselves" (Ellerman 2005) captures a little bit of this conundrum. If the external helper is 'helping people' in any direct and substantial way, then the people probably are not much 'helping themselves.' And if people are truly helping themselves, then any external help would be more indirect and limited. Direct assistance (as recorded by 'transactions') is 'outside in' while genuine self-help ('transformation') is 'inside out.' (The 'outside-in/inside-out' terms are from Ezra Taft Benson and were popularized by Stephen Covey in 1990).

Pursuing Measurable Results

This helping-self-help conundrum is perhaps clearest in education, where the helper-doer relationship is between teacher and learner.

> If we ask how the teacher-learner roles differ from those of master and slave, the answer is that the proper aim of teaching is precisely to affect those inner processes that, as Hegel (and the Stoic philosophers before him) made clear, cannot in principle be made subject to external

> control, for they are just, in essence, the processes germane to independence, to autonomy, to self-control (Hawkins 2000, 44).

Yet the organizational rationality of educational administrators will lead them to focus on what they can count, measure, and record; for example, on 'transactions' such as passing a test. Thus even if a teacher is fully aware of the difficulties in fostering inside-out transformation, the administrative pressures are to use carrots and sticks to 'show results' in a quick and uniform manner that can be replicated. Hence the educational process tends to be reduced to a form ('teach to the test') that will reliably produce the necessary transactions.

While this pattern is perhaps best known from the schools, it is a common organizational pattern in institutions dedicated to fostering some form of transformation. In the first instance, it is devilishly difficult to train teachers, managers, counselors, organizers, and social workers in the subtleties of indirect assistance to the doers' transformational processes. But then even the best training may be subverted by an organizational environment that more or less forces the helpers to 'take responsibility' for 'producing results,' which in turn implies reducing the interactions with the doers to a set of unhelpful transactions that can be monitored by the organization.

In particular, this organizational sequence is very evident in development assistance agencies. Judith Tendler has likened the situation to that of a company that needs quality inputs from a supplier. Aid agencies need high-quality projects that are fundable. If the agency doesn't 'take charge' then the quantity and quality of the 'deal flow' may be insufficient to justify the mission of the agency itself. Hence the agency is pushed by its own organizational imperatives to take over more and more control in the process of working with 'clients' to generate fundable projects:

> This taking over of project generation by development assistance institutions is like the backward vertical integration of firms in the private sector. The organization expands "backward" into the task environment and starts to "manufacture" project applications itself. It thereby lessens the high degree of uncertainty of the environment from which it must get its inputs, assuring itself of a more reliable source of supply (Tendler 1975, 103).

These organizational realities greatly complicate the issues about transformations and transactions.

Another angle of approach in understanding the tensions between transformational and transactional help is the question of motivation and incentives. Economics enjoys great prestige today at the pinnacle of the social sciences. It is said, "If economists understand anything, it is incentives." But there is at least one dimension where this understanding is tragically flawed. Ion notes Isaiah Berlin's distinction between positive and negative freedoms. To contrast freedom with oppression, Berlin makes a crucial point about the difference it makes whether the source of some constraint is a human will or a natural cause:

> "The nature of things does not madden us, only ill will does," said Rousseau. The criterion of oppression is the part that I believe to be played by other human beings, directly or indirectly, with or without the intention of doing so, in frustrating my wishes (Berlin 1969, 123).

Friedrich Hayek makes a similar point in his analysis of liberty or freedom in contrast to coercion:

> In this sense "freedom" refers solely to a relation of men to other men, and the only infringement of it is coercion by men. This means, in particular, that the range of physical possibilities from which a person can choose at a given moment has no direct relevance to freedom (Hayek 1960, 12).

Hayek's last point is directed against the tendency in conventional economics to interpret freedom in terms of the breadth of choice rather than the role of human will in determining the constraints on choice. Robinson Crusoe may have had few choices and endured much hardship, but none of it was a result of coercion or oppression.

Concentrating on Incentives

The same point may be made concerning the economic analysis of incentives. That analysis tends to neglect the important question of the source of the incentive. Is the incentive sourced in an external human will that wants to manipulate my actions, or is the incentive my own, so that acting in response to it is an exercise of autonomy? This question is neglected in an economic model that only records such and such a benefit if the person undertakes such and such action.

For some time, the mantra in the large development assistance agencies has been to 'get the incentives right.' If the clients are not 'doing the right thing' then it must be because the agencies did not 'get the incentives right'—as if the appropriate outward behavior to fulfill the 'right incentives' was the same thing as an inward transformation (which could only come from internally sourced motivation). 'Getting the incentives right' can buy some seemingly virtuous behavior (the 'right transactions'), but it cannot buy virtue in the sense of transformation.

Albert Hirschman, perhaps the most acute observer of the economic development process in our time, has noted these problems in trying to 'buy virtue.' If development policies were not adopted by the government independently of the aid, then such policies would tend to be adopted by aid-hungry governments in spite of continuing doubts of the policy makers themselves, resistance from some quarters within the government, onslaught against the 'deal' from the opposition, and general distaste for the whole procedure.

> Naturally, doubts and reservations are not voiced at the moment of the aid compact; hence the delusion on the part of the donor that there has been a full meeting of minds. But soon after virtue has been 'bought' through aid under these conditions, the reservations and resistances will find some expression—for example, through half-hearted implementation or sabotage of the agreed-to policies—and relations between donor and recipient will promptly deteriorate as a result (Hirschman and Bird 1971, 205).

The debate about conditionalities required to 'get the incentives right' is thus ill-posed. In psychological terms, the question is for example, how best to indirectly foster the government's internally sourced motivation for reforms, as opposed to the question, posed by economics, of how best to impose carrots and sticks (externally sourced motivation) to ensure the government 'does the right thing' (in terms of observed transactions).

My goal has been to complement Ion's discourse by noting the complications raised by the organizational imperatives in development agencies and by the quality of the 'just get the incentives right' advice given by the best and brightest of the conventional economics profession. The public is constantly being harangued by development agency leaders and various academic economists (not to mention assorted celebrities): "This is not rocket science—we just need to put in enough resources along with properly structured incentives and monitoring to get the job done." But this model of development aid as one big social engineering project is the model that has failed over the past half-century (Easterly 2001, 2006; Dichter 2003). The leaders of failed agencies and the purveyors of flawed theories have become more a part of the problem than of the solution. Perhaps understanding the subtleties of transformation is in fact more like rocket science than they think.

Strengthening Autonomy

This brings me to Professor Chamlee-Wright's paper on the microfinance industry. Here were a number of 'dogs that didn't bark.' The problems were not in her excellent review of the state of microfinance or with Hayek's concept of extended order. But any discussion of the way forward for microfinance with an emphasis on sustainability surely has to look at the difference between savings-based microfinance and the lending-led programs. Perhaps 'microfinance' is coming to mean lending-led programs that can be 'installed' by development organizations using seemingly off-the-shelf models and donor finance (see Johnson and Rogaly 1997; Dichter 2005b). Thus 'sustainability' is indeed an issue. In fact, there is an issue as to whether or not that sort of development assistance should be sustained. Is that the sort of assistance that builds self-reliance rather than dependency, that builds capacity rather than prolongs incapacity?

Another dog that didn't bark was the whole notion of a 'cooperative.' Part of the extended order is the array of organizations and informal institutions that poor people have from time to time developed (with whatever names) to address their needs and meet their challenges. Historically, the cooperative movement has flourished during hard times (for example, during the Great Depression in the United States). There have been savings-based credit cooperatives (including but not limited to rotating credit societies), consumer cooperatives to hold down costs, producer cooperatives to help farms and small businesses, adult education associations to promote advancement through learning, and, yes, even labor unions. It might be recalled that the early labor unions of the 19th century were not exclusively (if at all) organized for collective bargaining but for more civic-republican ideals of getting out of the wage relationship to become independent operators of businesses, trades, or farms. They were allied with worker education associations such as the mechanics institutes in Glasgow and London (now Birkbeck College, the adult education unit of the University of London).

By definition, the poor do not individually have wealth but they do have numbers, and through the social organization of those numbers they can acquire the social, economic, and political influence to address their own needs. Thus the first question might be, "Does the program help poor people to organize what they do have—their numbers—to better address their own needs?" The historical cooperative and labor movements as well as the Civil Rights movement over the last half century are examples of that sort of self-organized extended order wherein poor or disempowered people played an active role as the agents of their own betterment, not as the 'customers' or clients of well-meaning organizations who want to 'help' them.

But today much has changed. In the developing world (and in the depressed parts of the developed world), social organization often comes in the form of donor-funded organizations that are thick upon the ground to 'help the poor' (Dichter 2005a). Instead of really helping the poor to become the agents or doers of their own development, the poor are seen as the clients and customers of the multitude of externally funded organizations with the ostensible purpose of delivering services—such as microfinance lending services—to the poor.

Chamlee-Wright poses the question of whether the microfinance industry should have more of a social mission orientation (with the resulting dependence on continued donor funding) or move toward a commercial model that might be self-sustaining but which, for all the usual reasons, would tend to leave the poor behind. I think this line of questioning misses the point that neither of these options promotes the forms of extended order and self-organization by which poor people have historically improved their lot. There are other forks in the road.

In contrast to the microfinance programs discussed by Chamlee-Wright, a savings-based credit cooperative (or 'credit union,' as another type of union) is an organizational form by which large numbers of people, each with small savings, can pool their savings together to finance nontrivial business opportunities (in addition to some consumption-oriented lending). In one sense, cooperatives are commercial (for example, in using corporate forms and accounting standards). But cooperatives are not commercial in the sense of being footloose or free-floating such that they can leave the poor behind. A certain identifiable group of poor people are the members of the cooperative, and their savings are being put at risk, so they have the natural incentive to monitor and control the activities.

If this third, 'savings-led' option is the way forward, there are many ways that donors can subtly help catalyze and facilitate the development of savings-based credit cooperatives. For instance, one way is to foster and partially fund upstream organizations whose missions are to catalyze and help organize savings cooperatives and to help those cooperatives learn on a peer-to-peer basis from each other about meeting the many obstacles they face. As Chamlee-Wright put it wisely, "The guiding principle for the donor should not be primarily to provide services to a particular known group but rather to create the first, crucial connection that spontaneously generates many more connections."

In taking the service-provision approach, by contrast, donors often provide what might be called 'unhelpful help'—'help' that tends to crowd out budding attempts at self-organization, 'help' that tends to reward need rather than initiative, and 'help' that tends to create dependence rather than build the capacity for independence (Ellerman 2005).

There are interesting analogies with the contrast between 'fast food' and 'slow food.' Genuine development assistance, where the helpers do not crowd out and undercut the agency of the doers, is a slow, subtle, and painstaking process. Yet various leaders of development assistance agencies, assorted well-meaning celebrities, and a few publicity-seeking academics are constantly badgering the public, political leaders, and donors to 'do more' to help the poor and to 'do it quickly' because 'things are getting worse.' Thus donors and the organizations they fund are 'in a rush to do good'—which accounts for much of the popularity and 'success' of installing off-the-shelf, loan-led microfinance programs. But that is rarely how good is done, and the rush to produce 'fast food' results often disrupts 'slow food' approaches that may be more productive in the long run.

Put yourself in the shoes of a community organizer working in a village, town, or city trying to get people to overcome the many differences that have kept the poor 'divided and conquered' and to exercise the self-discipline to join together and start a savings-based credit cooperative. What would be the effect of then having a loan-led microfinance organization enter the scene offering low-cost, donor-subsidized individual loans with no savings required?

Finding the Truth

Clear thinking about microfinance also requires getting beyond the carefully selected, stylized stories told by the microfinance industry. The activities of microfinance organizations are described as funding 'entrepreneurship' by the poor, when the bulk of loans seem to fall into a category that is better described as 'consumption smoothing.' This includes bulk consumption expenditures on things that cannot otherwise be purchased on credit, as well as the various family crises that might otherwise force a family into the hands of the village moneylender. The point is not that these goals are unworthy but that they bear no relationship to the story-line of funding entrepreneurship by the poor.

In the minority of cases where some business activity is being individually funded, it will often be an activity with little or no barriers to entry, so many micro-borrowers may simply end up in cutthroat competition with each other. For instance, one type of nanobusiness is to buy a spice or staple in some bulk and then repackage it in small amounts so that other poor people can afford it. Such microbusinesses are easily imitated, have little if any potential for growth and diversification, and do not address the more fundamental obstacle to nontrivial entrepreneurship, namely, the inability of people in the community to cooperate together to do what they cannot do individually.

It is now a commonplace that donations of food surpluses from the North (developed countries) to 'feed the poor' in the South (developing countries) may well end up undercutting the struggling farmers in the South so that the South becomes even less able to feed itself. In a similar manner, donations of used clothing may undercut local tailors and local cottage industries. It is perhaps less appreciated that an 'entrepreneurial activity' funded by subsidized microlending, namely shuttle trading (where the individual trader shuttles back and forth between the suppliers and her marketplace), has created a micro-version of the 'Wal-Mart effect' on unsubsidized local merchants, not to mention local producers. Moreover, it is often small and medium-sized businesses that have the real development potential to engage in the extended order of the market, but their financing needs seem to be crowded out by the quick fix to alleviate the symptoms of poverty. Thus the rush to do good with prepackaged and easily installed microfinance programs may well be another form of unhelpful help that has untoward longer-term effects on the supposed beneficiaries.

I am sympathetic to Chamlee-Wright's arguments for commercialization of microfinance—or at least a cooperative-based version of it. But I have also argued that the microfinance industry has very deep problems of unhelpful help quite apart from the decision about whether the way forward will be to move down the path of subsidies or the path of commercialization.

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