

“Does Rawlsian ethics validate Microfinance interest rates?”¹

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Abstract:

This paper addresses the fairness of prices, with a focus on fair interest rates as they apply to micro-lending transactions for the poor. Since microfinance institutions provide credit for the poor at relatively high prices, the fairness of their interest rates have been repeatedly debated. This paper provides some theoretical background to this debate. We show that the justifications for the debate are often framed in Rawlsian terms but argue that principles of justice, such as Rawls' Theory of Justice, are incomplete to address issues of fair pricing in microfinance.

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Introduction

Veblen (1898) looks at institutions in an evolutionary approach.

"The individual is but a single agent in each case; and he enters into each successive action as a whole, although the specific end sought in a given action may be sought avowedly on the basis of a particular interest; as e.g., the economic, aesthetic, sexual, humanitarian, devotional interests. Since each of these passably isolable interests is a propensity of the organic agent man, with his complex of habits of thought, the expression of each is affected by habits of life formed under the guidance of all the rest. There is, therefore, no neatly isolable range of cultural phenomena that can be rigorously set apart under the head of economic institutions, although a category of " economic institutions " may be of service as a convenient caption, comprising those institutions in which the economic interest most immediately and consistently finds expression, and which most immediately and with the least limitation are of an economic bearing".

According to Tool (1977), Veblen argued for a non-normative methodology while analysing economic issues. He argued that evolutionary economics should not be concerned whether an action is to be worthy or adequate. This can be

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