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'Every problem does not have a solution'

Subhomoy Bhattacharjee

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: Swatting fluffy ideas, **Abhijit Vinayak Banerjee** has crisp answers to most of the challenges thrown up by development economics. But even as he tells **Subhomoy Bhattacharjee** it takes a long time to make bureaucracy accept changes, he is equally clear that there cannot be a solution to every problem surrounding poverty. The Ford Foundation Professor of Economics at MIT should know. His Poverty Action Lab at the MIT has been the pioneer implementing ideas on the ground using tools from economic theory.

You have begun a very interesting pilot on providing fortified salt to the poor, in Bihar. This is a very practical social intervention programme.

Yes, it is about how price signals are interpreted by people. The answers to this question can be very vital in a poor society. When you price things significantly above the usual market prices of the alternatives available—even if you are trying to persuade people to go for the better alternative because it is good for them—there are issues. So the question is, what price points do you set up? What prices should we charge for maximising offtake?

This is different from setting up controlled experiment conditions—say I come home to you and feed you a pill that is necessary. That does not take into account the external conditions. For instance, we will not know the absorption capacity of the body or the chemical processes involved. These depend on a whole range of factors. So, the question is, how much does the body actually need or can absorb under normal diet conditions and then use the overall environment to deliver it.

Are there indications that government policies are becoming sensitive enough to take advantage of such studies?

I think there are more people in government today than there were, say ten years ago, who appreciate such study. Is that a majority? No. It is a very small minority, but it does seem that there are now many more people who recognise the usefulness of such a study and there are those in government who are also keen to evaluate them. But my guess is it will still take a long time. Government officers are used to writing their stuff in the offices rather than working out in the locations. So, as I said, it will take some time and I see no way for these changes to happen in two weeks.

Fortunately, in Bihar there are now many more people in the government and even more outside it who are aware of the problems. They are ready to offer specific solutions in any case, as compared to states like Haryana or Rajasthan. There are bureaucrats who have the vision and are not inclined to follow the elite imperial model of the all-knowing officers, who don't need to study anything or learn anything. This is important. Otherwise we will be stuck repeating the same thing.

There is a lot of debate on the relative importance of cash transfers to pull people out of poverty.

I think there is no contradiction between the two; they address separate issues. One is trying to make transfers to people while the other is getting them to use merit goods. These may be those for which people may be willing to pay, where you can use price signals—one can find an appropriate price response. But there may be those for which they may be unwilling to pay but which are good for them. In the latter case, the solution does not lie with cash transfers. If you have to get children immunised, this problem will not be solved by giving people more money. Instead, you have to find another way.

What do you think about the proliferation of anti-poverty schemes?

Let's have one more scheme for one more problem. You have to recognise that these schemes will not solve those problems in any case. Let's not pretend that if there is a problem we have to have a scheme for it because when you try to solve it, often it may not be possible to solve it. There is a presumption that when we want we can solve a problem under any circumstances.

You recently presented a paper about the regulatory challenge in the microfinance sector...

Yeah. The basic idea of microfinance is that it is for starting a business. But for those borrowers who don't do this, there is a concern about how they repay the money. This is what has to be fundamental to all regulatory concerns. How does one handle the bottom end of the group without endangering the top half of the group? There is one group which needs credit and can use it well and there is another group which may need the credit but should not be borrowing so much. And how do you regulate this without killing one or endangering the other? It's a difficult regulatory challenge.

We should obviously welcome RBI's plan to regulate the MFI sector.

It's a great beginning. Overall, there has to be certain clarity that these are institutions that need to exist. You just cannot regulate people without a correction mechanism that works on a daily basis. In any case, we need to solve this problem before it becomes too big. This has been recognised. Now, it is more a question of creating the right environment. But the regulation should explicitly focus on the goal of fairness in consumption borrowing. Regulators should not get sidetracked into ensuring that loans are productive. That would make for unimplementable policy and perhaps even choke up the sector.

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