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| Thursday, September 1, 2011 |

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Calcutta Weather

 **Temperature**
Min : 27°C (+0)
Max : 31.9°C (+0)

Rainfall : .5 mm
Relative Humidity:

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MIT economist on why policies fail in India



Economist Abhijit Vinayak Banerjee was in town recently. The Ford Foundation International Professor of Economics at the Massachusetts Institute of Technology gave a talk on his book *Poor Economics* — co-authored with fellow MIT professor Esther Dufo — at a programme in Bengal Club in association with **The Telegraph**. Before the talk, the economist spoke to **Devadeep Purohit** about the book and some of the contemporary economic issues. Excerpts from the interview:

Q: What was the trigger for the book?

A: We have been doing this work for 15-odd years.... At some point you feel there is some value in trying to draw out what this means for the bigger picture. Otherwise you keep doing one thing after the other and you don't have the time to actually draw broader implications out of what you are doing. That is the way we academicians work, where we study one thing and then we study the next thing.

Q: What is the big takeaway from the book?

A: The big takeaway from the book is, don't worry about big takeaways... The last chapter of the book is called *In Place of a Sweeping Conclusion*. That's deliberate. That's the main message of the book. There are really a hundred different problems and we have to solve one at a time. If we pay attention to what that specific problem is and think hard about it, maybe we will get somewhere with it. There is no reason to think that the solution to problem A will necessarily give you a solution to problem B.

Q: In our country, the policy-makers try to address problems with one big solution. Say, for example, the use of the public distribution system (PDS). What are your views on it?

A: I think the debate over PDS misses several key points.... There are two separate things that are being tried to be achieved through the PDS. One is to increase the general standard of living of the people and the other is to actually get them to have better nutrition. I think the problem of better nutrition is unlikely to be solved by PDS....

The priorities of most poor people are not necessarily better nutrition. They are interested in cellphones, better tasting food, etc. Like the rest of us. So, if you give them some amount of subsidised or free grains, they may just buy less grains from the market. They will not necessarily end up eating more. Indeed, it might even be that they will eat less. The idea that nutrition can be improved by dumping grain on people ignores all the evidence that we have on nutrition.

Then there is the second question. Is this a good way to redistribute? This is a harder question.... By giving rice at Rs 2 instead of Rs 12 or Rs 15 a kilo, we are changing their level of total earnings, but the real income of people can be increased in many other ways. You can give them cash, you can give them a pension, you can give them housing. There are all kinds of ways in which you can make people better off, and we should be thinking about which one is better.

People who want to continue PDS are saying that if people are given cash, then the men in the family will take all the cash and run away, but if the families are given food, the men

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can't do that. That's actually not true.

If you give them food, they are going to stop buying food and the men — if they are so inclined — will drink up the cash thus released. If the desire to spend more on food is not there, a scheme like PDS can only do so much.

On the other hand, it is extremely difficult to maintain control over PDS. Food has to be bought in one place, it has to be transported to another place, make sure that it has reached the right place.... The logistics of the entire system are horrendous. If we imagine the various options of giving cash, they will probably be logistically much easier to manage. They may be subject to different kinds of fraud that we haven't thought about as of now and we definitely need to figure out the right way to do it. But the proposition that all food will necessarily end up feeding hungry people and all cash will be used in drinking seems a real stretch.

Q: In India, the government spends money on various programmes to improve the standard of living of the people. What is the biggest challenge for the government?

A: We have tonnes of government programmes which do nothing. Why? Because we design them badly. We often have debates on whether we should spend more money or not. But the debate should be on what is the best way to spend the money. If we start thinking hard about better ways of spending money, we will get much better outcomes.

Q: Are you happy with the policy prescriptions in India, where one particular programme is taken across the country without considering the different impacts it might have on different places?

A: I get worried because I see there is no genuine pilot.... There is something that looks like a pilot but actually that's not. You have pilots that are mostly *naamkewaaste* (only in name).... We start badly designed programmes and then even though it's obvious that they do not work, nobody wants to scale them back.

I think they should invest more effort in designing programmes, trying out three or four or five options and see which works and which doesn't. There seems to be huge political pressure to go from conception of a programme to its launch as fast as possible, but that's not serving the purpose.

Q: Is the situation different in the developed world?

A: We are among the countries where the stress on serious research is the least. We may be better than the sub-Saharan African countries, but if you look at China and Indonesia you will find they are much more willing to seriously experiment.... They abandon programmes if they find those are not working. They are much more objective than we are.

Q: What are your views on the Food Security Bill?

A: In my view, it will not necessarily achieve the real important goal of higher nutrition and I think this is a badly thought out bill. As it stands, the Food Security Bill is an extension of PDS. Had it not been as closely tied to PDS, the bill could have been much better.

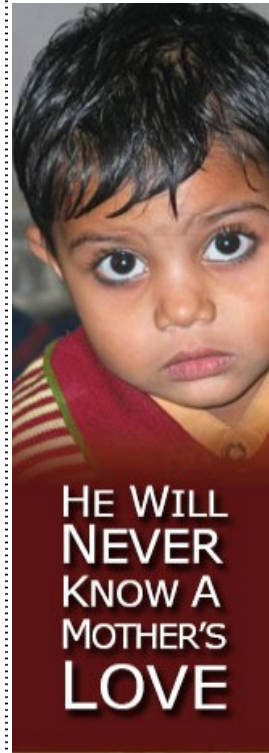
Q: What would be your advice to the government?

A: I think we need to invest in programmes that are realistic and based on ground realities. Less wishful thinking, more attention to how people actually behave, not how we want them to behave. There is no mystery about why our programmes fail. They fail because we don't put much thought into designing them. I would just say, design each programme well. The objective is often noble like with the Food Security Bill, but that is not enough. There is another thing....

While there are many noble objectives, given the capacity of the state, all of them are not achievable right now. So, we need to choose and decide which are the ones we want to achieve. Take a programme and make it work really well and then start on the next one.

Let's start by making one thing work.... For example, the National Rural Employment Guarantee Act still doesn't work particularly well. May be it works better than many other programmes but the assets that are being created by it, everyone recognises, are not particularly useful assets. We could have done a lot more work to make it work better. But instead of fixing the problems, the political attention is switching to the next programme.... That's the problem.

Q: Do you think political intervention needs to be minimised in the designing phase of the programmes?



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A: I think there should be a law that no major programme can be launched within two years of an election.... That's going to change some incentives. I think the compulsion to get it running leads to a situation where not enough attention can be given to its design.

Q: The Mamata Banerjee government has announced so many programmes since coming to power. Do you think they will work?

A: I don't think most of them will work. You can't get programmes to work by just announcing them — you have to put thought and work into them.



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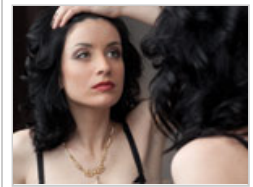
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