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Subsidies have a very poor design and very little imagination: Abhijit Vinayak Banerjee

Sanjiv Shankaran March 26, 2013

*Abhijit Vinayak Banerjee is the Ford Foundation International Professor of Economics at the Massachusetts Institute of Technology. To those outside the fraternity of economists, he is perhaps best known for his 2011 book 'Poor Economics,' which he co-authored with Ester Duflo. The book suggests ways to tackle poverty through a ground-up approach. At the India Today conclave, Banerjee spoke to **Sanjiv Shankaran**, Senior Editor, Business Today. Edited excerpts:*

Q. Which myth about poverty do you come across most often?

A. They (the poor) are extraordinarily lively as consumers. They are thinking of what they want and what they would love to have. You just forget that life and sometimes that is to the detriment of the way we make policy. Just because they don't have enough resources, it doesn't mean that every penny they have, they will put into food. You take somebody whose family is malnourished and give them a rupee. At most, 30 paise will go into nutrition. Why? Because they say I am malnourished, but I also want more taste, more fun, I want more entertainment, I want more life. They want more tasty food.

I don't know if it is a myth or a general misconception, but it is one that is very fundamental to the way poverty is conceptualised.

Q. Therefore, you see a wrong design for subsidies?

A. Yes. Therefore, you start thinking, if we give people food, they will improve nutrition. Imagine, a family buys 20 kg of wheat a month. Let's say 15 kgs are offered at a subsidised rate. The last five kgs, I still have to buy. When you give a subsidy, my income has gone up. When my income has gone up, I might decide to spend the money on a cell phone and not on extra nutrients. So, we assume that there is a sort of mechanical transmission between subsidies and nutrition, but there is no reason why there would be a mechanical transmission.

If you look at the number of calories consumed at every income, it has been going down. The country's getting richer, but nutrition's not improving. Part of the reason is that people are not spending as much. There are new consumer goods coming into the market. Should I say that I should never want a cell phone because I am poor? That general conception is part of the problem. We always assume they will behave the way we want



them to behave.

Q. Is money the best subsidy?

A. No. I think many subsidies are... some of the **most powerful subsidies** are things people will never value but will have huge consequences for them. For example, iodised salt. There are lots of ways to do things which would have substantial welfare gains. We don't pick the right things.

Q. So, is it largely design that's the problem?

A. Yes. Very poor design and very little imagination.

Q. What about the Right to Food?

A. The Right to Food is a juggernaut that started several years ago. At this point it is not going to be redirected. I think you should have had a right to nutrition and we should have focused on public campaigns. That is a whole different view. We are going to do the Right to Food, then, at some point, we will realise it is not fixing malnutrition. Then we are going to come back and do something else. It's too hard to stop a juggernaut once you have called it Right to Food. Who could be against it? Now, it's too late. That's why we really need to stop the Right to anything.

Q. At your book launch, Nandan Nilekani said something to effect that unless you promise a silver bullet nobody hears you. Is that the problem you see in the government?

A. Yes. One of them is that, which is we can't say we will fix this little problem. You know deficiency of micronutrients is a huge problem. Who is going to take that? If you do it for five years on a nationwide scale, that is still five years of some excellent person's time. If you want to get every school lunch with a micronutrient sprinkle, nobody will buy it but nobody will reject it either. It's a very simple thing but kind of sounds boring. Right to Food sounds so much cooler than Right to (vitamin) B12. That's a real problem related to what you just said.

We don't have enough people who could think outside the box. We have a bureaucratic culture. Smart people tend to keep their ideas to themselves. There is a discouragement in saying I am going to do some small programme. Bihar, for example, has de-wormed all its children. Nobody in the media will make a lot out of it. But it's the kind of thing we should be making a lot out of. Nobody gets any attention for that, but it might well be one of the more successful things they have done.

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