

The Economics of Muhammad Yunus

Imagination is more important than knowledge
— Albert Einstein

A Roundtable on 'The Economics of Muhammad Yunus'

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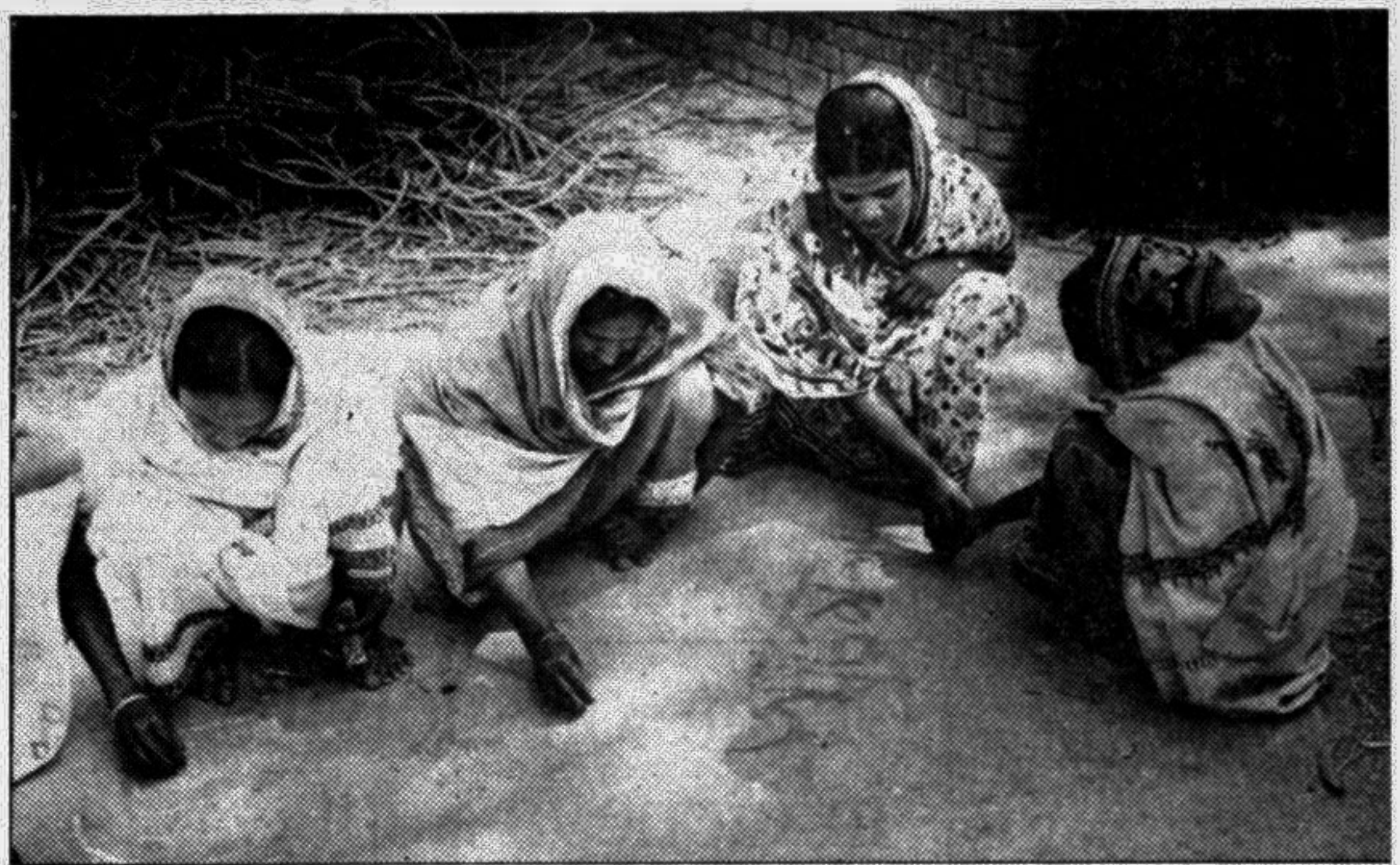
A roundtable on 'The Economics of Muhammad Yunus: An Alternative Paradigm in Making?' was organized jointly by the Centre for Alternatives, the British Council and The Daily Star at the British Council auditorium on August 22, 1998. The roundtable focused on a crucial new aspect of the current development discourse. The question was whether the approach of Md. Yunus in alleviating rural poverty will replace the prevailing neoclassical paradigm that elevates the market. Whereas, the current economic paradigm stresses the central role of the market in all economic activities, by placing the central emphasis on people Prof. Yunus has pointed at the limitations of neo-classical economic thoughts. Significant debates and differences of opinion regarding this came up during the roundtable discussion.

Syed M. Hashemi of Grameen Trust presented the different dimensions of Prof. Yunus' challenge to neoclassical economics in a paper titled 'Prof. Yunus versus Neoclassical Theology. The Quest for a Surrogate Paradigm.' This paper generated a lively debate among the participants. The major themes that came up during the discussion centered around the following issues:

A New Paradigm?

The discussion on this issue concerned: (1) Relationship between neoclassical economics and the model of Prof. Yunus; (2) Tools that can be used to assess Prof. Yunus' contribution towards a paradigmatic shift in development discourse. In his paper Dr. Hashemi pointed out that neoclassical economics says very little about intra-household transaction, gender, race, power, self employment and initial resource endowment. The fact that neoclassical prescriptions has failed to deal adequately with alienation of labor (stemming from the system of production of commodities and prevalence of wage labor), governance and poverty are indications that a new paradigm is needed. And Grameen Bank's central emphasis on the poor (collateral free banking, taking sophisticated technology to the poor) are starting points for a new paradigm.

Many participants agreed that mainstream economics is going through a crisis period. However, many discussants stressed the fact that Prof. Yunus did not introduce any radical new concept in the economic discourse although his achievements are remarkable. Mr. Golam Hossain, a student of Department of Economics, DU, pointed out that the normative and ethical aspects of economics has been highlighted by Dowrick and others. He stressed that the major contribution of Prof. Yunus is the



creation of an institutional structure that overcame the problems arising from the 'asymmetry of information' and gathering of empirical evidence that poor people were credit worthy.

Ahmad Kamal, Professor of History, DU, pointed out that Prof. Yunus' innovative approach to microcredit operations developed from the absence of effective (and participatory) poverty alleviation programs in Bangladesh. Prof. Kamal raised some pertinent questions.

He stressed that the question that needs to be pondered upon is whether Yunus' model is leading to the creation of a new paradigm or whether it is creating tensions within the existing paradigm. A paradigmatic shift takes place only when the existing tools for explaining reality are exhausted. If it can be ascertained that the traditional tools for explaining and alleviating poverty in Bangladesh is insufficient, then only it can be claimed that a paradigmatic shift has taken place with the introduction of microcredit model used by Grameen Bank. He further pointed out that it was too early to comment on whether a paradigmatic shift is taking place.

and how Prof. Yunus is using the lessons and experience of these new enterprises to mould his practices into a new paradigm. Dr. Kamal commented that at this level of micro-credit operations problems do exist in identifying the methodology of Prof. Yunus as a complete paradigm. Moreover, comprehensive and objective impact studies need to be conducted. He pointed out that in order to term Yunus' model as a new development paradigm, studies need to be done on whether it leads to real social and political empowerment of the poor.

Sardar Aminul Islam, Professor of Sociology, DU, pointed out that the existing discourse has not been able to explain the success of Grameen Bank as an agent of development. He also raised the issue that conventional tools for academic analysis may not be sufficient for analyzing the success of Grameen Bank model. He stressed that a social science analysis of Grameen Bank model's success is needed rather than a straightforward neoclassical economic analysis. Hossain Zillur Rahman of BIDS emphasized that to properly assess the contribution of Yunus' model the debate should not center around neoclassical economics vs. Yunus' 'Economics.' The yardsticks that should be used to evaluate Yunus' work are the following: (a) It has vitalized the focus on the philosophical roots of economics as a science (i.e., through challenging the universal notion of common agent by focusing on the poor, by ushering in a somewhat 'Gramscian' perspective of en-

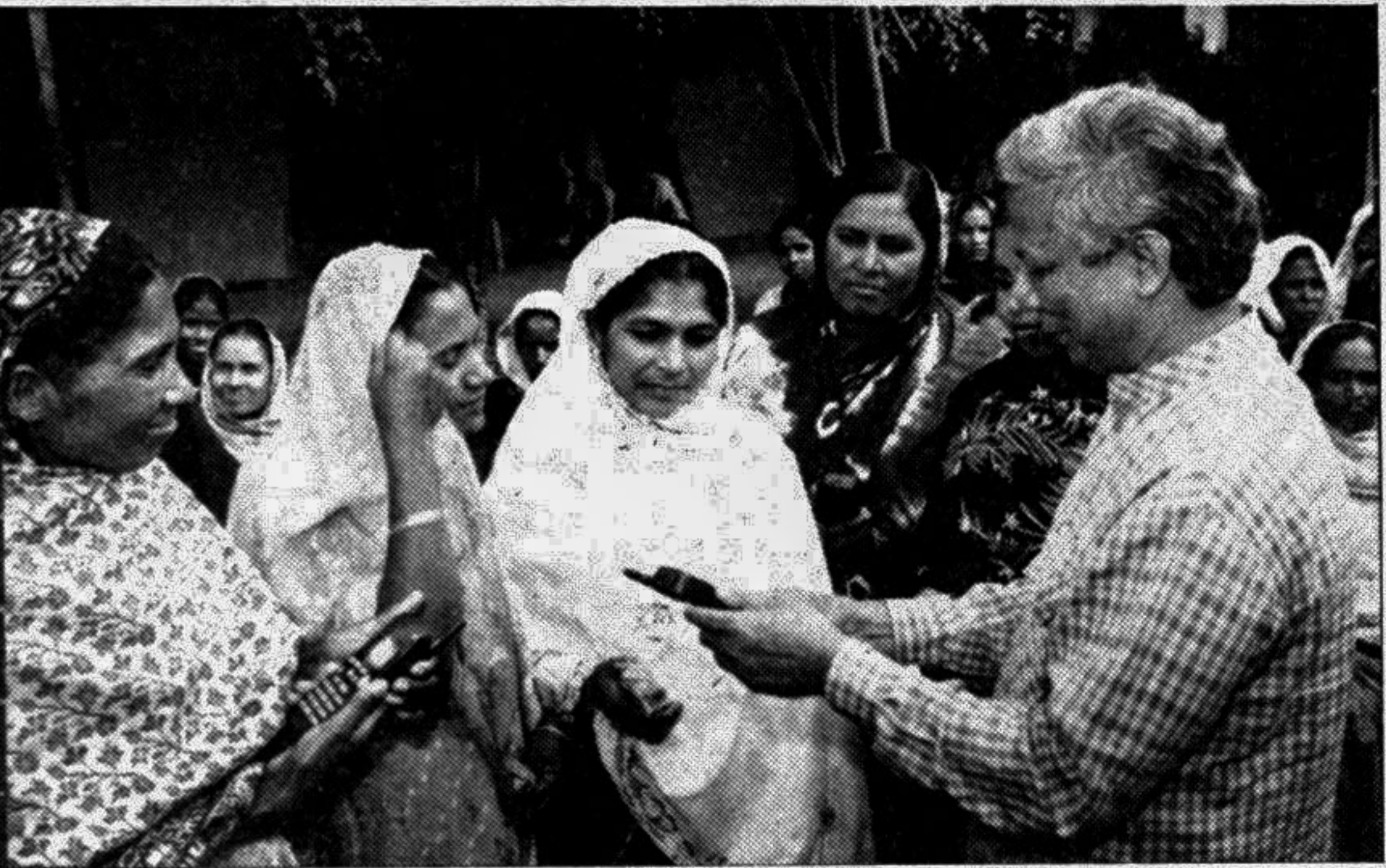
trepreneurs, through emphasizing the creation of new institutions, and centralizing the question of ethics in economics), (b) It has put emphasis on the role of the economist within the society.

Abdur Rob Khan, Research Director, BISS, pointed out that Prof. Hashemi's presentation on Yunus' writings focused more on the limitations of neoclassical economics rather than providing clear cut elements of an 'Yunusian' paradigm. However, Prof. Hashemi clarified this issue by stating that Prof. Yunus has not claimed that he has created a new paradigm rather he is posing some questions to show that paradigm shift is required.

Microcredit, Development and Societal Change

The debate revolved around micro credit operations and their impact. The following issues were prominent in the discussion on microcredit: (a) microcredit and development, (b) future challenges for Grameen Bank regarding microcredit operations, (c) credit as a human right.

Monaw-war-uddin, Professor of Economics, DU, argued that the central issue that needs to be pondered upon is the link between microcredit and development. He stressed that while he admired Yunus' microcredit operations, it is not likely to lead to an overall economic development. He contended that micro credit operations can be viewed as 'advanced system of charity.' In his opinion overall economic development requires a macro approach which includes heavy industrialization and modernization of agriculture.



only. This will obstruct Yunus' initial goal i.e., to focus on the perspective of the poor and change the society as a whole.

Ahmed Kamal particularly drew attention to several limitations of microcredit operations. These are: (1) its inability to reach the poorest of the poor due to several factors: the nature of microcredit programs, emphasis on compulsory savings, maintaining 95-100% rate of return, methodology for selecting target groups that leave out the ecologically vulnerable groups and selects only those who has 'loan replacement capacity.' (2) The question whether these microcredit programs are resilient and disaster proof is yet to be determined. Dr. Kamal commented that microcredit operations will face a crucial test after the recent flood has subsided.

Many discussants also pointed out that through Grameen Bank's microcredit operations the traditional mindset about credit and the poor has changed. Yunus' strategy of collateral free loan has given the poor access to credit and a chance to use their entrepreneurial skills (through intra-household productions and self employment). This has changed the traditional neoclassical outlook about who has access to credit and why. As Mr. Azizul Huk, a former minister of GOB, put it 'microcredit operations helped establish the notion that credit is poor people's right and not a privilege.'

Assessment of Grameen Bank

Though the central focus was on 'economics of Prof. Yunus' the discussions almost inevitably moved towards the evaluation of the Grameen Bank as it is widely viewed as the implementation tool of Yunus' thoughts on economics. Dr. Gulam Rasul raised some questions about the interest rate of Grameen Bank. His opinion was that high interest rates of credits is not actually benefiting the poor.

Mahfuz Anam of The Daily Star also asked for concrete information about the actual impact of micro credit operations upon poor (i.e. to what extent it has alleviated poverty). He also wanted a clarification about the actual interest rate charged by the Bank. Mahbubul Amin, a former Deputy Governor of Bangladesh Bank pointed out that the range of interest rate of most of the NGOs is between 18-30 percent, while that of the Grameen Bank is around 20-22 percent. Abdur Rob Khan drew attention to the criteria for credit worthiness of the rural poor which often leave out the poorest of the poor. Lamia Karim, a Fulbright scholar, stressed that empirical evidence about Grameen Bank's performance is very much important in judging whether the ideas of Prof. Yunus actually construct a new valid theory.

Hossain Zillur Rahman made several points regarding the Grameen Bank's performance. He pointed out that though in terms of increasing the level of income Grameen Bank's achievement has been rather modest but in certain areas it has mitigated extreme manifestations of poverty. Also the functions of Grameen Bank has enhanced the role of social multiplier (esp. in gen-

der). Dr. Rahman held that the experiences of Grameen Bank in poverty alleviation can play a very significant role in reorienting economic thought. Mr. Azizul Huk identified some important contributions of Grameen Bank. He stressed that Yunus' success in increasing participation of poor villagers in development scheme is significant in the history of economic development in a country like Bangladesh. Moreover, Grameen Bank established the realistic use of credits in increasing the production by the poor people.

Ahmed Kamal also made some interesting observations. He pointed out that total eradication of poverty has not taken place in the villages where Grameen Bank and other microcredit NGOs have been operating for decades. But huge enthusiasm exists among the rural poor to join these micro credit programs. Their initial hesitations have now almost disappeared. Though questions can be raised as to whether the people taking credits are really poor or not, whether the absolute poor or those who are relatively less poor are asking for more loans etc., the sheer enthusiasm indicates the success of the programs. Grameen Bank's activities have also contributed to the social empowerment particularly of women. Dr. Kamal also stressed the need for addressing the 'tomorrow's poor' in microcredit operations. The 'tomorrow's poor' are those who are slightly better off than the target groups of Grameen Bank or other microcredit NGOs and have no access to credit, and thus will become poor in the future as they experience various macro-economic shocks and natural disasters.

Mahbubul Amin also spoke about some noticeable success stories of Grameen Bank. He pointed out that Grameen has constructed several lakhs of houses in rural areas for those who live in extremely poor conditions. Together with women's empowerment Grameen Bank is also contributing towards the expansion of education. With Grameen's help 27 students have taken admission in Dhaka University.

Moreover, in more than 50 countries Grameen Bank's model of poverty alleviation has been widely appreciated and practiced. About the 'poorest of the poor' he opined that Prof. Yunus has not claimed that Grameen Bank is working for everyone who belongs to this category. There can be some faults in the operation of Grameen Bank the field level but its achievements and contributions should not be undermined.

Report prepared by Sohela Nazneen and Syed Imtiaz Ahmed, Fellows Center for Alternatives.

The Lessons of Muhammad Yunus: Some Thoughts

PROFESSOR Yunus and the Grameen Bank have been at the centre of national and international attention for nearly two decades now. He has done Bangladesh justifiably proud on the world stage. His recent call, in an international conference for new economic text-books to address better the concerns of the world's poor offers an opportunity to assess anew the Yunus legacy and its contributions to the continuing reconstruction of the development discourse.

Grameen Course in Universities?

The following letter appeared in the Grameen Dialogue's issue of July 1998. The letter read: I am writing about a research project that I am undertaking this winter. I am in my final year of university at Bates College in the United States. As an economics major, I am encouraged to spend my last semester writing a thesis paper. While enrolled at the London School of Economics, I studied the Grameen Bank as part of my Development Economics course, with Professor Desai and Dr. Scott. I was fascinated by the economic theory employed in the Grameen Model. In particular, the peer-monitoring approach, as discussed by Stiglitz, fueled my curiosity. As a result, I intend to devote my thesis to the study of the Grameen Bank. In particular, I will focus on the Bank's success in alleviating poverty... (Michael Holland, Bates, USA.)

by Hossain Zillur Rahman

both the achievements of the micro-credit initiatives as well as their limitations. The micro-credit initiatives following the Grameen model have played a part in the two important achievements of the past decade, namely, closing certain extreme facets of poverty on the one hand and a transformation of the social landscape on the other. These have been no mean achievements and they have undoubtedly given a crucial resilience to the base of the economy.



However, the same facts also underscore the limits of the Grameen model in terms of the very modest rates of aggregate poverty decline. Any notion of microcredit as a comprehensive answer to the problem of poverty does not appear to be a tenable one by the balance of current evidence.

However, is the Yunus legacy exhausted by the current empirical achievements of the Grameen model? I think not. There are at least four critical areas in which the works of Professor Yunus has posed challenges for the development discourse, challenges which constitute potential grounds for a wide-ranging re-thinking of

the text-books: Challenging the undifferentiated universal notion of the economic agent (poor as a distinct category)

Re-thinking the role of entrepreneurship i.e. the 4th factor of production (the poor as entrepreneurs)

Focusing on the critical role of institutions within the economy (banks do not serve the poor)

Putting the spotlight on the role of ethics in economics (the emphasis on socially conscious enterprises).

The above are important challenges to the continuing task of reconstructing the development discourse in favour of the poor. If these challenges are taken up with the seriousness they deserve, it is possible that new text-books may be forthcoming someday. However, text-books are not the only goal worth pursuing here.

The question of practice remains pre-eminent. The premise on which Professor Yunus plunged into the process of social challenge carried a great deal of radical potential. The Yunus legacy, as far as I can see, continues to embrace these radical potentials.

Can Grameen Bank Lend a Paradigm?

by S. Aminul Islam

SOME time After the World War II, a graduate student of theoretical physics in the United States went on to teach a course on science to non-scientists. It exposed him to out-of-date theories of science. This exposure fundamentally changed his view of science. Drawing on psychology, sociology, linguistics, philosophy and particularly a monograph of Ludwik Fleck, Thomas Kuhn published a slim but revolutionary book called The Structure of Scientific Revolutions in 1962.

Since then the term paradigm has emerged as one of the most widely debated single word in social sciences. According to Kuhn, a paradigm has two basic characteristics. Firstly, it emerges with a notable scientific achievement — an exemplar grounded in the solution of a significant mystery of nature which supplies common values and techniques for scientists to work with. Secondly, these values and practices are shared by a community of practicing scientists in a particular domain of science. A paradigm allows scientists to engage in routine puzzle-solving activities—the practice of normal science.

In course of time, there emerges problems which the paradigm fails to solve. When these anomalies gather and become pressing, there occurs a state of crisis. Scientists begin to search for new ideas signaling a phase of extraordinary science in which speculations abound. The crisis leads to new discoveries. A revolution takes place in which an old world view dissolves and a new paradigm emerges. Kuhn compares it with political revolution. A new paradigm expands through the practice of normal science and is articulated mainly through text books.

There are many who do not agree that there are paradigms in social sciences. Others have argued that social sciences have paradigms or, at least quasi-paradigms. In each discipline there may co-exist more than one paradigm.

For neo-classical economics poverty is 'invisible'. The post-Keynesian strategy of job creation has not really worked. Conventional economics has failed to address the poor. Both in ideological and theoretical discourses 'the poor have been

represented as the other — the obverse of rational entrepreneur — whose poverty lies deep 'inside his skin'.

In spite of some new ideas on the horizon, the problem of poverty has not led to a new paradigm. At the same time most poverty alleviation programmes have not fared well either.

In the context of the economic crisis of early 1970s, when the golden path of growth had suddenly disappeared and the only idea of poverty alleviation economics could offer was 'growth with redistribution', a young economist left the world of high theory to set up an odd experiment in a village called Jobra. The rest of the story has been told and retold. From the single village of Jobra the Grameen Bank has spread over more than half the villages of Bangladesh reaching nearly about 2 million of the wretched among the wretched — the world's small savings of the poor amounted to about \$128 million in 1996. The recovery rate of the Grameen Bank has been 98 percent.

The important point here is that the Grameen Bank has not resorted to any kind of charity. It has charged a very high rate of interest. The experiment has proved that the poor can be trusted and they can pay back even at a high interest rate. More importantly, it has been successful in creating micro-solidarities in a society which has been described as largely atomistic or individualistic. Though less documented, social and political impacts of the Grameen Bank may have been quite substantial.

On the strength of the Grameen Bank's performance, microcredit can be viewed as an exemplar of successful developmental intervention. It has changed our accepted vision of

banking, risk-management, gender, and the poor. The Grameen model has been adopted by a large number of development practitioners. Thus it can claim the status of a quasi-paradigm. It is not likely to replace other paradigms. But it can stand on its own.

An emerging paradigm only holds promise for the future. A quasi-paradigm can fail. Its success will depend upon its further growth through routine practice. It must be able to reach the poorest of the poor. It may require a different kind of puzzle solution — a closely focused strategy.

The Grameen model faces two other crucial challenges. The first one is the proper institutionalization of charisma of its architect, Professor Yunus. Charisma must be blended with effective organizational structure at the top. Poverty has many faces. But a more challenging task for the Grameen is to develop a 'discourse' of emancipation from the bottom, from its engagement with the poor and its focus on poverty.

Immanuel Wallerstein argues that it was the dominant liberal ideology of the nineteenth century West which artificially divided social sciences into separate and autonomous domains. This division blocks the intellectual development in the social science like a wall of stone. The issue of poverty can be a solvent of disciplinary boundaries. Poverty may be the appropriate terrain from where such a new paradigm of development can emerge. Is the Grameen Bank capable of moving towards a broader vision — a genuine paradigm of development and a world without hunger and deprivation?

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The topic for the next issue of Alternatives is 'Hazards of Paying Bills' Creative suggestions are invited from our esteemed readers. Please send your materials to: Dr. Imtiaz Ahmed, Executive Director, Centre for Alternatives, Room No 431, Lecture Theatre, Arts Building, Dhaka University, Dhaka-1000. Tel: 9661900-59, Ext. 4550; Fax: (8802) 836769; E-mail: imtiaz@bangla.net