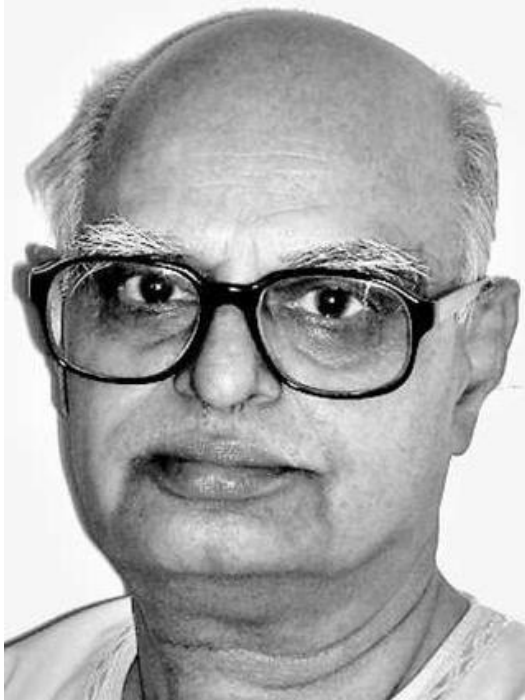


# THE HINDU Business Line

## Virtues of zero interest rate

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There is a story about Robert Bruce, the Thirteenth century king of Scotland. Having been defeated six times by the English, he was hiding in a cave when he saw a spider try and try again to spin a web until at last it succeeded. Inspired by it, he fought again and again until he succeeded.

The policymakers of the RBI are following that example: they have raised the bank rate for the thirteenth time in the past nineteen months. Robert Bruce would not have succeeded if he had stuck to the same old tactic. Hence, it is not certain that the RBI will succeed this time either — even though they have reportedly said that this is the last time. I hope it is not like the way circuses used to advertise — last week, the very last week, the very final week, and so on. I hope that the RBI realises that its method is not working and tries something else — notwithstanding what the experts may advise.

## **ANOTHER BUSINESS MODEL**

Incidentally, the RBI has expressed particular concern about the way food inflation hurts the poor. That inflation is indeed serious. For instance, in Delhi, the price of vegetables in the bazaar is three to four times the wholesale price. It is a pity that merely moving these perishable goods a few kilometres should increase their price so drastically.

If the RBI is serious, it should ask the government to fund at low, or even zero interest, refrigerators for vegetables in consumer shops and also silos for grain. Let them proliferate so much that competition sets the prices right. In my opinion, better storage, low cost entry and free competition will help the poor better than higher and higher interest rates.

If poverty alleviation is the concern, can businesses help? According to the late Prof C. K. Prahalad, who postulated the concept of the 'bottom of the pyramid', poverty alleviation may be achieved simply by reducing the cost of services and thus make them affordable to the poor. Businesses have liked the idea: They realise that thereby they can improve their profits and, at the same time, earn the reputation of helping the poor. Usually, Prof Prahalad's idea is used to sell more to the poor but not to buy anything from them. The question is whether business would not profit more if it buys something from the villages in exchange for what is sold to them.

Incidentally, Prof Prahalad commends a type of Public-Private Partnership (PPP) as practised, for instance, by Aravind Eye hospitals. Those hospitals serve both the rich and the poor. The rich pay full costs and the poor only the much lower marginal costs. The very poor may even get the services free. As Aravind Eye Hospital is a private enterprise, why should others not do the same?

Essentially, our society needs a system by which the poor can get education, healthcare, housing and municipal services like water, sanitation and roads of acceptable quality at affordable prices. That is what Aravind Eye Hospitals does – by inducing the rich to subsidise the treatment of the poor.

## **CREDIT AS REWARD**

On the other hand, there is a well-accepted theory that the primary aim of any business should be maximising return on investment for the shareholders. It is also accepted that poverty alleviation is the responsibility of the government and not that of business

houses. So, when businesses help the poor they should have a PPP – support from the government on behalf of the public.

Usually, governments do so by providing (very expensive) land free or at a low cost. That is a pre-operative subsidy. It does not work when the hospitals and schools take the land virtually free but keep their beds and seats empty rather than serve the poor. The only thing the poor can sell is their labour. Will not businesses profit more if the quality of their labour increases? At present, the businesses expect the government to do so by providing education and healthcare to the poor. Unfortunately, the Indian government is not doing as much as it should – look at the way infants are dying in Bengal.

How will businesses profit more – by selling to untrained, uneducated and unhealthy poor, or by utilising their talents after making the poor better skilled and more healthy?

I suggest that the government should help when businesses observe the statistical 80-20 rule: The richer half of the population spends 80 per cent and the poorer half only 20 per cent. Then, the government may offer a post-operative incentive – interest free loans when they let the same number of the poor as the rich (with acceptable reduction in quality, for instance, general wards Vs special wards) and make them pay only 20 per cent of the total cost.

Then, indifferent performance may be checked by reducing interest subsidy in proportion to the shortfall in the number of the poor served.

Will not businesses ultimately make more profits by promoting self-supporting schools and hospitals? Will their profits not increase if they have better trained and healthier staff, as against allowing the state to continue with its inefficiency in this area?

Should not the government help such ventures by offering them loans not at high interest rates, but zero interest rate? The government will benefit because businesses can offer the services more efficiently and it is easy to check what percentage of the clients are from the certified poor.

Will that not promote those at the bottom of the pyramid?

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*The RBI's rate hikes are not working, while inflation continues to hurt the poor. The poor can be provided cheap food and health services, if the businesses doing so are rewarded with interest-free credit.*