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# **The Theoretical Aspect of Muhammad Yunus's Dream-"Putting Poverty in Museums"**

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## **Abstract**

The present economy is based on capital based income structure. Grameen Bank has shown how zero capital owners become small capital owners by taking micro-credits. However micro-credit can create very limited economic density in an area that is insufficient to eradicate poverty unless the root causes of poverty are identified and counteracted. Neoclassical economics only focus on presently available capital although the capitalists are not created at once. A natural cycle of economics upholds economic, cultural and social values by its self-corrective nature. The natural economics is overridden by profit-motive institutional structure, where the market is not uniform or equal behaving for all segments of economic agents rather it is distributed as layers of energy states. A prudent utilization of all the opportunities targeting the poorest people of an economy will make benefited all in terms of new values, welfare and employment opportunities etc.

## **1. Introduction**

The poverty at this point of time is most complex since it is prevailing after all possible trials and methods of poverty alleviation although by this time the world has reached its peak in terms of resources and technology. Now poverty is considered as a burden or a threat to peace. Amartya Sen commented 'there is a problem of poverty to the extent that it creates problems for those who are not poor and the real tragedy is, the non-poor people try not to allow the poor people to become so poor (Sen, 2001)'. Nevertheless Professor Mohammad Yunus, the Nobel Peace Laureate 2006 who have invented micro-credit and working for the poor people in rural Bangladesh over thirty years is very optimistic to solve poverty by means of social business. In his Nobel Lecture in Oslo he commented -"we can put poverty in museums". Realistically speaking, the institutional structure and mindset we have is impossible to change.

Our present economy is based on capital based income-structure. We have seen from the micro-credit programs that it helps the poor people to create small capital from zero-capital. The next section will look at the reasons behind Grameen Bank's success and limitations of micro-credit programs. Yunus (2006) defined our theoretical framework as "half-done" and "too narrow". The concept of Cycle of Economics (Zaman, 2006) is an

enhancement of neoclassical economics and its theoretical complements shows that we could have a better world with more cultural, spiritual and collective values. The natural cycle of economics is overridden vertically by profit-motive money-market dynamics (MMD) where a market is distributed as layers of energy states. If the outermost layer becomes very weak, the poor people on that layer fall in deep rooted poverty without having any choice but to struggle for subsistence. Yunus has proposed non-loss and non-dividend social business for them in the areas of health care, education, financial services etc. This is described in the third section. The fourth section described a realistic model of social business where the poor people will make tiny savings and their information will be stored in a database for providing life-long institutional assistance. The fifth section described how money-market dynamics can be achieved by means of workers share in profit motive industries. The macro-economic policies can be formulated in a way that the workers will intend to dominate in the mother industry and on the other hand, the main owner's share will spawn a number of different or similar industries or businesses.

## **2. The Grameen Bank's Micro-credit Program**

Before micro-credit programs the only source of borrowing money by the poor people in Bangladesh was the money-lenders. Still the money-lending is a very demanding business in urban and rural areas since no one helps the poor people in cases like treatment, daughters wedding or any other urgent need of money. A typical interest rest is TK20 per month for TK100 that is 140% per year. The borrowers then scramble for paying the interest for months after months virtually he becomes a bonded slave to the money-lender. Sometimes this is the only source of money to the urban poor people since micro-credit organizations are not lending money to them due to their unsettled addresses. The micro-credit programs introduced by professor Mohammad Yunus utilized the business opportunity of the money-lenders as a large scale social business with long-term vision by deploying lots of field workers.

Grameen Bank gives loan to rural poor people for cow rearing, paddy husking, rural trading etc. and organizing production in small scale. In this way the micro-credit organizations are following back some money to the poorest people in rural areas which eventually increasing economic density in those areas. Group dynamics is the one of the main reasons of high recovery rate (99%). One of a family member takes loan but due to "high" concern within the family in a rural area, the other members virtually share the liability of the loan. That is why normally a

loan is given to a woman (97% of 7.0 million borrowers are woman), particularly to a mother whose concern for the family is the highest so that the combined efforts of the family make her able to pay the monthly installment and also the family members are benefited by the surplus they produce together. Thus the micro-credit organizations are working under capitalist framework and become sustainable as profit making company. Although the view of Mohammad Yunus is to plough back the profit to Grameen Bank again and make the poor women its majority share-holders. This kind of business he named as “social business”.

Despite many micro-credit programs, huge numbers of landless people are migrating from rural areas to urban areas just to live unsettled and uncertain life. It is true that without these programs the number could be much higher. All of the migrant people are very hard workers but they have to live an uncertain life without having savings, health security, education facility etc. For example, in the garments factories of Bangladesh, the women workers work 12 to 14 hours a day for only \$10 to \$30 per month and no other facilities. Many of them have to work all of the holidays just to get \$2 bonus per month. In Bangladesh, about 1.5 million garment workers in 3000 garments factories are any better than the slaves of the medieval age except that they are not in chains. It is found, not unusually, that many of them are working with severe illness just because hunger is unendurable. Perhaps slavery is better than this because slaves will get food without working during their sick period.

What are the ways to transmit money to the huge number of bottom level poor people? Certainly it is the industries not the crop fields. One may ask why we are so concerned with micro-credit. Why not with establishment of factories to provide employment? In that way, people will get a higher income than what they are getting through the credit. The real situation is very much frustrating. We see that industries established in the 1980s in different locations of Bangladesh are now scrap-heaped around the country. Now most of our nationalized industries are at the verge of collapse and the ominous tendency in the private sectors is to switch their business from production to merchandising.

What will we do now? Will we wait for a revolution or a charismatic leader? In this situation we can not expect that a miracle will change everything that causing the poverty not only financially but also in terms of skill, morality etc. So far the poverty has been alleviated by 10% in Bangladesh in the last 30 years. One news paper commented that it would take about 300 years to get rid of poverty in this country if we can maintain the same pace.

### **3. The Concept of Social Business Vs Modern Economic Theories**

Mohammad Yunus in his Nobel speech came up with a solution to create a poverty-free world called “social business”. He defined the social business as “Profit would be ploughed back into the company to expand its outreach and improve the quality of its product or service. A social business will be a non-loss, non-dividend Company” (Yunus, 2006).

The idea of social business sounds very good but seems to be very unrealistic at our present institutional framework. Firstly, in this capitalist world, we can not expect business without profit maximization objective. This objective is the key to competition or dynamicity in the market. If it is a low profit or no-loss business, then what will attract the investors? Secondly, the decision of re-investment depends on whether it will be beneficial for the investors or not. On the other hand, a company has its optimum size depending on its business area, company culture, management quality etc. An investor must have right to take his dividend. An entrepreneur or investor must not keep all his money in one basket. Yunus also blamed our economic and social system and conceptual frame-work and asked for a change. Unfortunately, it is impossible to change our existing mindset.

The conceptual framework of neo-classical economics is based on the assumption that economic agents are absolutely rational to maximize their utility with a given number of preference functions. At business level, the objective is translated as profit maximization in an ideal economic environment like perfect information, complete set of markets, homogeneous commodities, no economics of scale or production externalities etc.. Simply speaking, the income of an economy is segregated in to profit and wages, where the capitalists save all their profits and wage earners spend all their wages. Thus human interaction with the production factors results in distribution of their incomes and it has historical perspective because the capitalists are not created at once.

The concept of perfect rationality was modified by Herbert Simon’s (1982) concept of ‘bounded rationality’ that economic agents are partially rational where there is possibility of having a vector or multi-valued utility function. By taking into consideration of transaction cost concept of the New Institutional Economics (NIE), we may say, information is an important parameter or entity for economic modeling. Putting together all those concepts, a cyclic relationship between information pattern, rationality pattern and income distribution can be made (Zaman, 2006). By making so it becomes evident that an economy is self-corrective and progressive in nature. Thus we could have a better world with more cultural,

spiritual and collective values. Unfortunately, the real world is suffering from over-dose of institutional intervention on the natural cycle of economics.

Yunus has blamed that the poverty is created by the institutions and concepts that have made up our social system and the policies that we pursue (Yunus, 2006). Economists define that the institutions are created for reducing uncertainty or imperfection of an economy. These kinds of institutions can be assumed as 'natural' institutions because the "Cycle of Economics" has a natural tendency to do that. On the other hand, economists like Bowles (1998) found that market and other institutions shape the behavioral diversity of the economic agents. Who can guarantee that the institutions will be hundred percent successful to achieve the objectives as defined by the economists? The government of a country is supposed to provide education for all of its citizens. If it fails to do so in an equal manner a new kind of imperfection and discrimination will be created in all economic and social areas.

In capitalist institutional structure, once an economic agent establishes some property rights, he receives profits made on his capital. To explain present economy this approach is acceptable however from historical perspective how can we explain the situations where the agents do not establish any property right ever? For simplicity of our discussion, we may assume, our economy started with two groups. One group of economic agents got benefit less than their marginal contributions and the other group got benefit more than their marginal contributions. The second group took the leadership and risk on their wealth to create new values for the first group and to step up. This is how a new market was created and eventually, now we have layers of market which is gaining energy by the money that goes up. The real economy has a money-market dynamics (MMD) relationship where money that is not paid out to its contributors goes up and in return new layers of markets are created in terms of more employment opportunities and more values for the economic agents (Zaman, 2006). This actually defines the profit motive institutional structure which overrides the natural cycle of economics.

A market is sometimes misunderstood as mere meeting point of demand and supply of commodities. Broadly speaking, a market produces commodities and also provides wages to the producers to buy the commodities. Empowered by technology a market has the power to resize its products in terms of price and costs so that it matches the purchasing capacity of the agents. This is 'market energy' and it is not the same for all groups of the economic agents. Therefore, we may assume a market has several energy states on which different groups of economic agents are placed. The layers of market structure also distribute the business opportunities of an economy in different time-frames for maximizing profits depending on

their target markets. The outermost layer may become primary interest of analysis to development economists because market energy of this layer is the weakest.

The money market dynamics (MMD) describes the scenario of an economy when market force is in action. What will if the market force is not in action? Now we are living in a 'two economy world'. People on the upper layer of markets are riding over benefits of economic growth whereas the outer layer people lose their freedom to share the benefits and gradually fall down toward the outermost layer. Eventually the market energy of the outermost layer becomes very weak. In this situation most of the contributions of its outermost layer agents will be accumulated on the upper layers so will be the government revenue expenditures. A corrupted government officer normally does not take bribe directly from a poor agent but from a rich agent. A huge amount of free money circulates on the upper layer which gives birth of money grabbers in a highly political environment. Whatever is the way to gather money on the upper layer, the money mostly circulates among the pockets of the grabbers. Therefore, there exist fierce contentions among them to dominate over each other to grab and control of the institutions so that they can establish monopolistic decision making process to dictate the economy as per their interest and wish. However, the agents who are not corrupted but are supportive to this structure also get indirect raise of their salaries up to certain extents. Consequently, the net result is that the rich agents become richer and costs of property ownership become high, increasingly unreachable to outermost layer agents.

The outermost layer economic agents who are living at subsistence level need government support in areas like health care, education, housing etc. What will if the government is ignorant or incapable of doing so? Yunus has proposed to introduce social business in areas like healthcare, financial services, information technology, education and training, marketing, renewable energy for the poor people (Yunus, 2006). Now we need to look for a realistic way of providing these services to them that must be synchronized and interdependent with money-market dynamics (MMD) down to the uttermost-layer. The next chapter describes that.

## **4. A Realistic Model of Social Business**

### **4.1 Introduction**

In our existing capitalist economic framework, establishment of property right is the basic requirement. The social business or social stock described by Mohammad Yunus is to give the poor people the property right. The second section of this article has described that micro-credit can make zero capital owners to small capital owners but they may become credit dependent for their subsistence.

‘Greenhouse Care Economics (Zaman, 2001)’ described that property ownership can be started from as low as tiny savings. If a lot of poor people are motivated to make tiny savings, then their collective savings will become a shield against the causes of poverty described in the last section. The last section has shown that stimulating money-market dynamics down to the outermost layer is the key to counteract poverty. This means that the market needs to be dynamically resized to fit the real needs and capacity of the poor people. This section describes how Grameen Bank can extend its services or start new social businesses to meet the real needs of the poor people in both rural and urban areas.

### **4.2 Grameen Bank May Start Operation in City and Urban Areas**

This article proposes that Grameen Bank shall start its operation in city and urban areas and allow the poor people to make tiny deposits with her. The account opening and savings process can be made as simple as collecting stamps so that illiteracy will not be a problem and the urban operation will not require lots of field workers. If the poor people are, however, self motivated to open accounts with the Grameen Bank, they will be registered in a comprehensive database by no extra cost or effort. This database will represent them as an organized segment of an economy so that they can be cared, educated and entertained in an organized way. This is how Grameen Bank can make the best use of Information Technology for poverty alleviation.

Where will the poor people get extra money for making deposits? Initially this might be a problem. But later, when the poor people from every corners will be registered with this program, a collective bargaining power will be established, which will increase wage of the day laborers, poor rickshaw-pullers, house servants, beggars etc. A portion of their additional income will be saved and on the other hand, their greater propensity of consumption by the rest amount will reinforce investment multiplier. A student of economics can try the concept



of demand and supply to find out how then the economy will reach at another equilibrium point and no one will be affected by the increased wage rate.

#### **4.3 Insurance Services by Grameen Bank**

An ideal government must ensure education and health care for the poor people. We see that these two sectors are full of inefficiency and corruption. On the other hand, they are also two flourishing private sectors. In this reality, let's assume that poor people deserve health and education care at the cost they can afford. Thus we can make health and education sector more accountable to the poor people. This is where the Grameen Bank may introduce an insurance company for the poor people. To distribute the costs and risks, this program shall also be extended for non-poor people with differentiated premiums and services.

A certain percentage of one's monthly tiny deposit may be assumed as a premium of his insurance policy. A company must provide some welfare to its workers. Which hospital or school will provide the welfare services to the poor people at a lower cost? The hospital or schools that are operated or subsidized by the government should be considered at first. The welfare services must be subsidized as usual and contribution of the insurance policies will be nominal but the insurance company must ensure the indented services by playing a supervisory role and compel the government hospitals to improve their services. For example, only improving management efficiency of the government hospitals, they can be made far better than existing private clinics. This is how a poor man's Tk1 can get more value to buy the welfare services.

#### **4.4 Introduce Banking & Accounting Business for Industrial Workers**

The Grameen Bank may introduce a new business of providing banking & accounting services for industrial workers. Similar to urban banking, the deposit of Tk1 of a participant will be inclusive of his predefined insurance premium, monthly savings and fees (say schooling and training). To taking the services close to the workers grip, industry affiliation of the bank will be essential and that may also open other business opportunities. This bank will also facilitate to introduce the concept of workers share described in the next section, which will be key to bring dynamicity in an economy. This bank may also open another face for corporate banking of the industry.

#### **4.5 Establishment of a Big Agro-marketing Network**

An agrarian economy itself has a limit and the products produced in the rural areas are always undervalued by its semi-subsistence market structure. Recent analysis of a daily newspaper

shows that prices of many agricultural products like vegetables are even three times higher in Dhaka city than that the farmers actually get. This is because of involvement of many middlemen and intermediary traders in between farmers and retailers. Therefore, the agricultural products need to be tunneled to the high capacity urban market by establishing a big marketing network by involving the poor people in business. Grameen Bank may utilize her strong footing in rural areas to establish this network as profit making social business.

#### **4.6 How is to start?**

Let us consider an economy is composed of many quanta of economics. A geographical region may be considered as a quantum economy. To implement the high level proposal described in this section massively throughout the country, we need to translate it to further low level based on real need and opportunities of each quantum economy. At startup, it is required to make a study on a particular area to make the most suitable detail plan for that quantum economy. Therefore, before starting up any operation the first we need to set up a Research and Development Center. Initially the first local offices may be act as branch offices of the R&D center.

It is expected that the initial funding can be managed by the long-term stakeholders of the outcome of the study like the multinational companies Unilever, GrameenPhone, Ericsson etc. C.K. Prahalad defined the position of the huge number of poor people in an economy as 'bottom of the pyramid (BOP)' with immense need. There is synergy between the needs of the poor people and the needs of the MNCs (Prahalad, 2002). If we translate this synergy in our money-market dynamics (MMD) model, poverty alleviation and the growth of the multinational and local companies can be linked together by making some prudent economic strategies.

## **5. Creating Dynamics in a Poor Economy**

### **5.1 Workers Share**

From our so far discussion it is still not clear that how an economy will reach its dynamics? Workers' share in a company will be a radical one toward the way to create MMD down to outermost layer. Each of the low paid employees (whose wage is below a certain level) of the company may have little ownership of the company. In this way one's ownership entitlement will become a part of his operational holding. Therefore, his concern to the others will develop a family attitude in a wage employment sector. By course of time a unit industry will

have a growth and each of the workers will have more capital to work with. His wage rate will rise along with the rise of his marginal product. There will be more income of the workers and ideally, they will not intend to withdraw their capital as long as it will provide higher wages and other benefits.

The workers' share must be protected by a legal and policy framework. That must accommodate existing legal and policy framework of corporate business and off course, also accommodate the workers' right to realize commercial value of their share any time on demand by keeping total investment of a production unit intact.

## **5.2 Internal Dynamics**

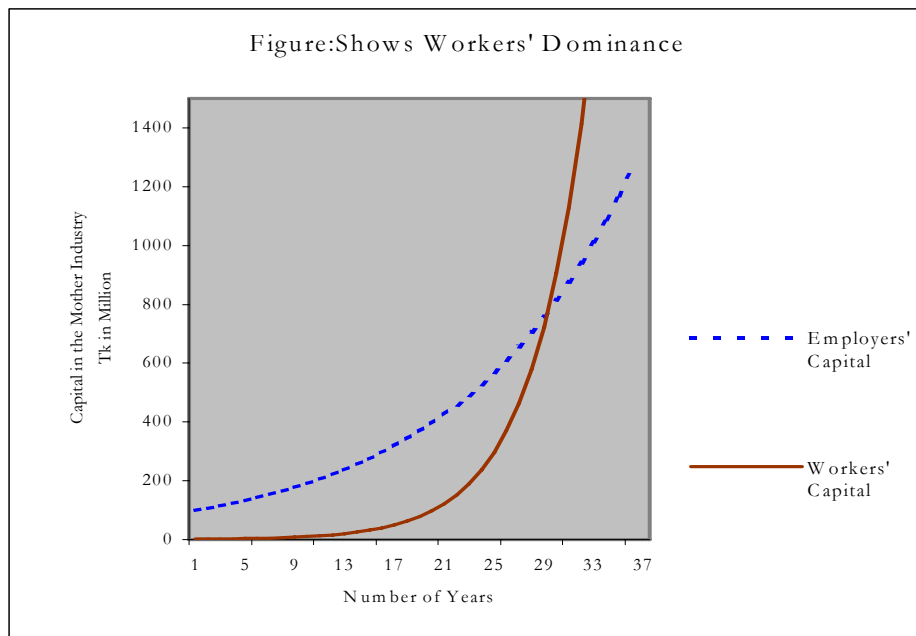
Let us consider a company where its workers are lowly paid but however, they are holding a portion of the company's stocks purchased their little savings. If the company's return is not good enough, whenever government will collect corporate income tax, virtually a big portion of their money will be taken away. That is, unfortunately, opportunity cost of their little savings could be very high. Now let us be a bit imaginative that government decides to return back equivalent money of the poor workers proportionate part of the corporate income tax to their respective accounts in the Grameen Bank's industrial unit. This should be applicable for the primary clients (registered workers) of the bank if they retain their primary shares. In this way a worker will earn higher rate of return on his investment than the other common shareholders. The bank will act as an accountant of the workers and keep track of all of their money or dividends.

For example, if a company earns 12% after tax profit, then a worker will receive 20% return at 40% corporate tax rate, which will be 8% higher than that of the other common shareholders. Eventually, the workers collective share in a quantum economy will be accumulated more rapidly than that of the other owners. Someday in the period of perpetuity the workers collectively will intend to dominate over the other owners of the company. We may call this tendency as "internal dynamics" of the company.

## **5.3 External Dynamics**

The portfolio nature of investment tells that an entrepreneur not to put all of his eggs in one basket. Therefore, he must withdraw a part of his profit (say, in terms of dividends) from the mother industry for otherwise investments. His investment portfolio will be triggered by the "internal dynamics" for diversified investments but will create new job opportunities and will absorb new workers. This tendency may be named as "external dynamics" of a company.

Let us see a simulation result where each of 200 workers in a company contributes Tk7,000 for buying the company's share. Say, the other shareholders total capital is Tk100 million. Then the total capital in the company will be 101.4 million. If the industry makes 15% after tax profit at 40% tax rate, then considering government tax return, the workers capital would be accumulated at 25% rate. If the other shareholders shift 50% of their profit for external investments, it will take 29 years to achieve workers' collective dominance in the company. By that time the other owners' capital will be equivalent to giving birth of 18 equivalent industries (assuming 4% inflation rate).



## 6. Conclusion

Mohammad Yunus has been conveying the message that poverty is not created from the part of the poor people. This means that the root cause of poverty lies on the side of the non-poor people. This article provides a solution according to the existing capitalist institutional framework and mindset we have achieved since big-bang. The businesses must be profit motive but the profits are to be achieved in different time-frames. In the front line, there will be extremely profit motive industrial units that will generate new employments and new values. Funds for the welfare organizations will be fed from the front line. The financial sector for the poor will be patiently profit motive and the other face for the non-poor will be impatient as usual.

It should be understood that the main objective of workers share is not to provide higher income of the workers. But this will give them opportunity to participate in decision making for more health care, education and other welfare support from their companies. By contributing more on welfare the owner can delay the pressure of workers dominance in the a mother industry. The external dynamics will act as a potential source of industrial development of an economy. This article also have proposed how is to tie up the industrial economy with the agrarian economy by building a marketing tunnel involving the poor people in business. Eventually, if the linking of urban and rural economy gains much potential in the long run, all of the people of an economy will receive its benefit. That is the dream Mohammad Yunus wants to implant in us.

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