

# CONSIDER BANGLADESH

2010s: Social Business Partnering in Youth's Most Exciting Decade




## Remembering Norman Macrae 1923-2010

I am pleased to be informed that *The Economist* is organizing a remembrance party of Norman Macrae on 16 November 2010. Mr Macrae was a rational optimist as well as a liberal economic journalist who was influential in both the academic world and the world of practice. I am happy that when I met Norman Macrae he was so enthusiastic about Grameen Microcredit, Social Business and our own entrepreneurial economics in Bangladesh. Over the years Norman made important contributions in several capacities. To many, he was best known as a prudent futurist.

I look forward to the publications, including the Journal of Social Business, which friends of Norman Macrae are helping support. This will not only raise the profile of the sector in general, I feel the platform for improvement and growth of what this journal has started will be successfully set.

I believe the article "Consider Bangladesh" by Norman Macrae will play a key role in promoting the concept of social businesses. I sincerely thank Macrae Family for promoting Social Business and I wish success in all its endeavors.

Sincerely,

A handwritten signature in black ink, appearing to read 'Muhammad Yunus', with a stylized flourish extending from the end.

**Muhammad Yunus**

## **How to Avert A Great Depression Through the Hungry 2010s?**

Answer, By Making All Banking Very Much Cheaper

This was Norman Macrae's last article written in December 2008

If banks in rich democracies had been truly competitive institutions, at least one of them somewhere would have seized the main opportunity created by the computer. This main opportunity was to make all deposit-banking vastly cheaper than ever before. By this cheapening it should make such banking hugely more profitable. Then further competition would search for the cheapest ways to guide all the world's saving into the most profitable (or otherwise most desirable) forms of capital investment, thus enriching all mankind.

Instead, during 2008 the total losses of banks in rich democracies - in North America, West Europe and Japan - soared into trillions of dollars. Fearful for their solvency, these banks virtually stopped lending. The issuance of corporate bonds, commercial paper, and many other financial products largely ceased. Hedge and insurance firms also crashed. Mankind is thus threatened in the 2010s with its longest great depression since the hungry 1930s.

Why? The strange answer seems to be that other happy consequences of modern technology promised to make this cheapening even faster. Call centres in Bangalore vastly undercut the middle class salaries of Midland bank clerk who until the 1950s expensively answered clients' questions in their branches in the City of London. Cheap mobile phones kept village ladies in once miserable Bangladesh as fully in touch with market prices as is the chief research officer of the First National Bank of Somewhere in California. His weekly salary is still 1000 times greater than the previous annual earnings of that village lady. The cost-effective way of running the old Midland or First National then seemed to be to cut its total salary cost by something like 99%. This did not please Western welfare governments, or the decent chief executives of the old Midland or First National bank.

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Awaiting the sensation of a short sharp shock

From a cheap and chippy chopper on a big black block

- WS Gilbert in *The Mikado* - why it is uncomfortable to work in an industry which needs 99% redundancies.

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Western welfare governments have long preferred to run their banks in high cost cartels, and even invented reasons why this seems to be moral. Their deposit-banks have usually kept in cash only 10% of the total amount deposited with them. If 11% of depositors suddenly feared that their banks might go bust, this could accelerate a run that would send them bust indeed. Governments therefore thought that depositors would be less fearful if they were assured that the banks were officially and tightly regulated. Actually, this mainly meant that the banks had to hire ever more expensive lawyers so as to escape any crippling consequences from this regulation. The attached quote shows that Samuel Pepys understood this fact of life in his Diaries of July 21, 1662.

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I see it is impossible for the King to have things done so cheaply as do other men

- Samuel Pepys on discovering an important commercial fact of life in his Diary, 21 July, 1662

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The decent bosses of the deposit banks felt that the best way of avoiding sacking nine tenths of their staffs was by competing with a very different sort of financing called merchant banking whose earnings and bonuses were far more generous than those given to their own staff. These merchant banks were of peculiarly differing pedigree. In London, it was assumed that they could best be run by families like Barings who had done the job for over 200 years. In the 1990s, Barings went totally bust because one of its hired traders bet much of its money on a hunch that a bad earthquake in Japan meant that the shares of Japanese banks and insurance companies would become more profitable. In Zurich, merchant banks felt it most moral to keep the accounts of their depositors totally secret, especially if these accounts were being used to defraud their own countries' tax authorities. In 2008 those

secretive banks were then defrauded. In Wall Street, Goldman Sachs and Lehman Bros bid up their annual bonuses to millions of dollars for each partner. In 2008 even Goldman Sachs made a loss and Lehman Bros went bust.

A former chairman of the Federal Reserve argues that "fearful investors clearly require a far larger capital cushion to lend unsecured to any financial intermediary now". He therefore thinks that taxpayers money should be ladled into them to make those investors less fearful. This seems far more likely to make depositors intermittently more terrified and cause any depression into the 2010s to linger on and on.

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In the 1930s, the chief economic adviser to the government of Siam was called Prince Damrong. I try always to remember it - quote from former director of International Monetary Fund.

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One of the few big banks to make a profit in 2008 was the Grameen Bank (which means Village Bank) in that once basket-case country called Bangladesh. The sole staff in a branch serving several villages was once a woman student. It is now more usually someone who has learnt to use the computer in the right way.

The rest of this report will examine how this marvellously cost-cutting operation works. Perhaps the most relevant and terrifying analogy is to commercial airlines. In 1945, there were only a tiny number of passenger airmiles flown on them. In each successive year these increased hugely and in this slump time 2009 there will be billions of passenger airmiles flown. In the late 1940s most governments therefore created national airlines and were confident they would flourish in this boom industry, with official regulation assuring they would be safe. Instead all proceeded to lose money, and later privatised but large airlines also did. The present trend is to cost cutting airlines like Ryan Air.

The same will happen to banks. Large banks mislending to the rich have run into losses that have created the slump. Politicians, thinking they are saving the world, are mislending huge sums to these mislenders and will eventually make the slump worst.

How to create cost-cutting banks? To begin with **Consider Bangladesh** - peculiar as this may seem.

#### START IN A STARVING VILLAGE

The Nobel peace prize for 2006 was controversially awarded, in Oslo, to a "banker for the poor" in usually unfashionable Bangladesh. Since the microcredit system pioneered by this Dr Muhammad Yunus really has lifted record millions of Bangladeshi women from the world's direst poverty, some of the world's toughest tycoons have thrilled to his stated aim to "harness the powers of the free market to solve the problems of poverty".

To his fans' delight and astonishment, he is achieving exactly that. In the past quarter of a century, his Grameen Bank has lent (without collateral or lawyers) increasing billions of dollars to millions of poor women in the previously starving villages of Bangladesh, and got an extraordinary 99% repayment back. His often illiterate customers have started millions of successful small businesses in unimagined fields like mobile telephone ladies and saleswomen of the world's cheapest yogurt. All these successes have been won by keeping costs incredibly low. A banking operation that would cost Goldman Sachs \$100 in New York or London would cost Grameen in Bangladesh well under 100 cents.

This is a huge development in human history. Money can now be directly channelled into productive use by the world's poorest people, while unsuccessful lending to the rich has caused a world slump. How do we switch custom to cost-cutting banks?

During Bangladeshi's terrible famine year of 1974, Dr Yunus ( who had won his doctorate in economics in a free market American university, which most founders of banks have not done) came back to his 1940 birthplace of Chittagong, as professor of economics at the university there. He started lecturing on his republic's 5 year plan, which like most 5 year plans was economic nonsense. In search of reality he took a field party of his students to one of the nearby famine threatened villages. His group

analysed that all 42 of the village's small businesses (such as tiny farm plots and market stalls) were indeed going bust unless they could borrow a tiny total \$27 on reasonable terms.

The first thought was to give the \$27 as charity. But Yunus lectured that a social business dollar, which had to be paid back after careful use in an income generating activity was much more effective than a charity dollar, which might be used only once and frittered away. The careful use of loans in very small quantities, says Yunus "means that you bring in a business model, you become concerned about the costs, the revenue, how to bring more efficiency, new technology, how to redesign, every year you review the whole thing. Charity doesn't bring that whole package".

Mercifully, all those first 42 tiny loans were fully repaid, and lent back. After 9 years of further experiments, Yunus in 1983 founded his Grameen Bank. Its priority was to make loans that were desperately needed by those of the poor that did repay them. Indeed, he argues that "access to credit is a human right so long as that credit is repaid". This is the reverse of the usual banking priority, which is first (and in credit crunches only) to make the safest loans those to the rich that can provide collateral.

In these last 25 years, Grameen has provided increasing \$billions of loans to poor people with that astonishing 99% repayment rate. In 2006, it had 7 million borrowing customers, 97% of them women, in 140,000 villages of Bangladesh. Microcredit had by then reached 80% of Bangladesh's poorest rural families. Over half of Grameen's own borrowers had successful small businesses. The women borrowers predominated because they usually are the poorest people in rural Islam and proved best in paying back.

When a Grameen bank manager goes to a new village, he has entrepreneurially to seek for poor but viable borrowers. He earns a star if he achieves 100% repayment of loans, and other stars if his customers are fulfilling most of the 16 guarantees that all

customers are asked to pledge, ranging from intensive vegetable growing, through sending all their children to school, to renouncing dowries. A branch with no stars would be in danger of closing, so borrowers rally round with suggestions, such as which unreliable repayers to exclude. Borrowers from the bank who do repay are called owners of the bank and receive incentives such as opportunities for insurance, and for winning university scholarships for their children.

#### A GENERATION ON - ENTREPRENEURIAL FUTURES ARE MOBILISING

An extraordinary income generator was the profession of telephone ladies. They borrowed enough to buy a cheap mobile phone from a Grameen subsidiary. They draw fees for phoning to see if more profitable prices for crops are available in a neighbouring village, and from anybody who wants to hire the phone to contact the outside world. This is a job that could only become important in a microcredit setting. The owner of a mobile phone in richer suburbia would not find many customers to hire her set.

One special desire of Yunus was to improve the nutrition of poor children in Bangladesh, and he formed a social business with the largest French food multinational. This Grameen-Danone test marketed to find what sorts of fortified yogurt Bangladeshi children would like. Although Danone at first wanted large plants with refrigerated systems, Grameen won the debate to make them small plants which bought local milk learnt a lot about sales of a new product in poor countries. A French water company is forming a similar social business with Grameen to offer a clean water alternative to the arsenic found in Bangladesh's rural water supply. Some American computer tycoons may help to find the best way to establish computer centres in remote villages. The telephone ladies will then face competition, but constant competition in new technology is one name of this game.



Nobody is suggesting that Goldman Sachs, when it recovers, should operate precisely in Yunus' mode. But some competition in sharply cutting costs in most banks will have to be part of the world's new banking system.

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**Short Biography:** *As a teenager, Norman began studying economics from an Indian correspondence course in (today's) Bangladesh whilst waiting to navigate RAF airplanes in the World War Two. His father-in-law was mentored for a quarter of a century by Gandhi, one Bar of London Barrister to another, on how to end Raj Imperialism. He went on to write over 2000 editorials from the microeconomics perspective of Free Markets & Entrepreneurial Revolution for The Economist, and in 1984 mapped what alternative futures micro versus macro economic worlds of the first networking generation will spin.*

<b>Considers by Norman Macrae</b>	
<i>Since 2008</i>	<i>Consider Bangladesh</i>
<i>Since 1984</i>	<i>Consider www</i>
<i>Since 1976</i>	<i>Consider Entrepreneurial Revolution</i>
<i>Since 1975</i>	<i>Consider 1976-2075 as Asia Pacific Century</i>
<i>Since 1962</i>	<i>Consider Japan</i>

September 2010, US Congress Votes For Economic Genius  
of our Generation

Rush Holt, New Jersey -  
Award Congressional Gold Medal to **Economic Genius**,  
Muhammad Yunus

I rise in strong support of this legislation to award Dr Muhammad Yunus the congressional gold medal ; the house has garnered 297 bipartisan sponsors of this bill; Muhammad Yunus is widely known as banker to the poor and is one of the world's great humanitarians, and an economic genius.

In 1974, as Bangladesh was struggling with terrible famine, this professor of economics led his students out of classroom and into village near by, there they discovered impoverished people could not get ahead because of the oppressive business practices of money lenders who exploited their poverty and desperation; with just \$27 Yunus liberated 42 victims of these unfair practices.

From this first experience, with the power of small amount of money, yunus developed the concept of microcredit; with just a few dollars to work with the poor are able to become entrepreneurs; they sell vegetables or clothing or other handmade goods and other products in order to slowly generate and accumulate profits; or they devise clever service industries with the cell phone or a computer that they can buy with the microloan; and it turns out that the poor are wary of debt , and are careful stewards of money; repayment rates of microloans are consistently near 97%, and step by step these borrowers build individual ladders on which they can climb out of poverty and into mainstream economy.

Within few years of his first trip to that destitute village, yunus created the Grameen Bank to act as bank to the poor in Bangladesh ; today Grameen Bank has over 2500 branches, it serves more than 8.3 million people, in over 81,000 villages; it has

dispersed nearly 10 billion dollars to the poor; it is estimated that more than 60% of Grameen Bank's borrowers have crossed the poverty line; many of these are women.

Over the last 3 decades Yunus has made the elimination of poverty his life's work, and the concept of microcredit has been widely adopted and the field now serves the poor with a portfolio of financial services including savings accounts, insurance, fund transfers, education loans, pensions ...

Microfinance institutions now serve over 160 million people in developing countries; women who make up 60% of the world's poorest citizens and disproportionately shoulder the burdens of poverty receive over 95% of the microloans; the funds allow them to increase their independence and improve the quality of life of their entire families; children of borrowers are more likely to attend school and enjoy better nutrition. Yet even with these accomplishments, there is more to be done. There are 2.6 billion people round the world who live on less than \$2 a day; and the poorest 1.4 billion live on less than a dollar and a quarter per day.

Microfinance still needs to take deeper root in Africa where 75% of the population live on less than \$2 per day; we must commit ourselves to addressing their needs and microfinance can be a key component of that work; Muhammad Yunus and those who have followed in his footsteps have made it possible for the working poor to turn into an entrepreneurial middle class and for beggars to become business people.

Yunus has been recognised with the Nobel prize for peace and the US presidential medal for freedom; he continues to challenge economic preconceptions and the acceptance of poverty around this world. We wish to further honor his achievements, and to support his extraordinary vision of making poverty, as he spoke in Oslo, a concept that future generations may understand only by visiting a museum.

September 2010, US Congress Votes For Economic Genius  
of our Generation

Spencer Bachus, Alabama - Overdue recognition of a vastly important concept: **what credit can do**

Over the last couple of the years we have talked about the effects of the recent economics crisis, and how it has limited our ability to procure loans in this country. We all know that credit is the lifeblood of both business and daily life. And that businesses need capital to invest in tools, labour and raw materials and that individuals need credit for short term needs and long term investments such as education. The need to free up credit in the USA is important in this country, but it is easy to lose sight how serious the need for credit is elsewhere - there it is sometimes a matter of surviving or being able to eke out a living.

It is a testimony to the man we honor today that he both recognised the needs of many for loans of very small amounts of money and devised a system that can be replicated anywhere to address that need.

In the years since the founding of Grameen, the model has blossomed in projects ranging from information technology and communications to food production with partners ranging from small local companies to giant multinationals. One project has funded installation of nearly half a million small solar electrical plants producing power for off the grid people in Bangladesh. I remember reading the book by Robert Caro about Lyndon Johnson and what electricity meant to the hill country of Texas- the miracle that we saw in America a century ago is being repeated in these countries now: the miracle of electricity.

This microlending model is not confined to small or developing countries, it has found its way to Canada and even the United States . Dr Yunus holds out the possibility that another offshoot he calls Social Business might be a way to help redevelop Haiti and bring its people out of poverty , as well as in developed countries to provide a path to help the poor become self-supporting without the need for welfare. Through all of this Dr Yunus has been not only a visionary innovator but tireless advocate for the model that demonstrates how to end poverty.

Let me conclude by saying this bill is an overdue recognition of a vastly important concept and the man who devised it.

## Nobel Prize Speech Introduces Social Business

*Quote from Nobel Peace Prize speech-2006 of Dr. Muhammad Yunus:*

We Create What We Want.

We wanted to go to the moon, so we went there.

We achieve what we want to achieve.

We accept that poverty is part of human destiny. It's not!

We believe we can create a poverty-free world.

We need to invent ways to change our perspective.

We can reconfigure our world if we can reconfigure our mindset.

Social business will be a new kind of business, making a difference in the world.

Human beings are a wonderful creation embodied with limitless human qualities and capabilities.

Entrepreneurs are not one-dimensional human beings, dedicated to maximizing profit.

They are multi-dimensional: political, emotional, social, spiritual, environmental.

The desire to do great things for the world can be a powerful driving force.

Young people dream about creating a perfect world of their own.

Social business will give them a challenge to make a difference by using their creative talent.

Let us join hands to unleash our energy and creativity.

Collectively, we can create a poverty-free world."

Source:

[http://nobelprize.org/nobel\\_prizes/peace/laureates/2006/yunus-lecture-en.html](http://nobelprize.org/nobel_prizes/peace/laureates/2006/yunus-lecture-en.html)

## **Consider Japan**

Posted 22 June 2010 by David Warren

I was very sorry to read in last week's "Economist" magazine of the death of Norman Macrae, who was its deputy editor for many years.

Norman Macrae was the first journalist to recognise the growing economic importance of Japan in the 1960s. His seminal essay "Consider Japan" (which can be read in the Norman Macrae archive) was published in September 1962, is a fascinating and powerful analysis of the Japanese economy at that time, and was an important corrective to those who still thought just in terms of Japan as a poor, developing country producing cheap counterfeit goods. The "Economist" obituary gives many other examples of Macrae's prescience and far-sightedness.

The sudden jolt of recognition that Japan was about to become - as it had in the late 19th Century after the Meiji Restoration - an industrial giant (two years after "Consider Japan" the world woke up to Japan's success with the Tokyo Olympics) led directly to the British Government's trade promotion activities that I listed in my last article on the blog, the setting up in the early 1970s of the Exports to Japan Unit in the then Department of Trade, and the emphasis in this Embassy's work on trade and investment links with Japan, that lasts to this day.

Do read the "Economist's" obituary of Norman Macrae - it is a tribute to a massively influential thinker, whose impact is still felt today in the work we do here in Tokyo.

Source:

[http://blogs.fco.gov.uk/roller/warren/entry/consider\\_japan](http://blogs.fco.gov.uk/roller/warren/entry/consider_japan)

"No society can surely be flourishing and happy, of which by far the greater part of the numbers are poor and miserable... What improves the circumstances of the greater part can never be regarded as an inconveniency to the whole." - Adam Smith (The Wealth of Nations)

Everyone gains by knowing of the favourite theme of Milton Keynes: "Increasingly the world is ruled only by economics. The danger arises when practical men, believing themselves exempt from intellectual influence, are in fact slaves of historic rules which changing circumstances have rendered defunct" - Norman Macrae (Sunshades in October, 1963)

Referring to the current inability of modern economies to solve societal problems, "things are going wrong not because of market failures. The problem is much deeper than that. Late 20th Century free-market theory suffers from a conceptualization failure, a failure to capture the essence of what it is to be human" - Muhammad Yunus (Creating a World without Poverty, 2008)