

Education, Employment and Equity :
The Bangladesh Context

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MOHAMMED FARASHUDDIN¹

Growth and Distribution

Economic growth and its distribution are issues of debate for as long as the concept of growth started occupying large space in the development literature. One view has it that ‘growth first and distribution next’ because there is no good in distributing poverty in a developing country. At the other extreme is the view based on empirical evidence that in an unregulated market condition, economic growth takes place through accumulation and concessions to the savers, investors, capitalists and entrepreneurs at the expense of the disadvantaged i.e the relatively weak. This invariably leads to concentration of economic power in a few hands and any attempt by the government to apply fiscal instruments towards redistribution of assets to the disadvantaged may ignite the concentrated economic power to change the government trying to ‘snatch’ part of their wealth.

Another argument put forward by the proponents of ‘growth first’ is the alleged lower propensity to save for the relatively poor. Any accumulation for investment must, therefore, favour at least in ‘the short run’ the relatively wealthy whose propensity to save is claimed to be higher. In the fifties, one Finance Minister of Pakistan Syed Amjad Ali articulated the government policy by putting singular emphasis on the state policy for enabling the rich capitalist class to make more profit for them to save and invest more if economic growth had to be aimed at.

¹. Former Governor, Bangladesh Bank

Adelman and Morris have collected evidence to nullify the claim that the propensity to save by the poor is low. One silver lining in the microcredit horizon of Bangladesh clearly shows that savings by the microcredit users (who are poor by definition) out of their incremental income is as high as 10 (ten) percent which is higher than the domestic household savings rate.

Kuznets Hypothesis

The Kuznets Hypothesis is a pioneering analysis of the historical growth patterns since Simon Kuznets invented the “inverted U Kuznets curve”. Kuznets Curve plots the longitudinal (time – series) spread in the distribution of income measured, for example, by the gini-coefficient, in an enlarging per capita GNP; it shows an inverted U type distribution curve. The interpretation of the Kuznets Hypothesis as expressed (pages 154-155 of Michael P. Todaro’s valuable contribution *Economic Development* Fifth Edition, Published by Longman, New York) by Todaro is that in the early stages of economic growth, the distribution of income will tend to worsen, while at later stages it will rectify and improve. This is claimed to be caused by the nature of the structural changes involved in the path of transformation of economic growth into sustainable development. Early growth taking place according to the theory of Professor Arthur Lewis ‘Two Sector’ transfer and employment of rural/agricultural low wage work force (unemployed/under employed) in the modern high wage manufacturing sector is bound to widen the gap between the modern and the traditional sectors. Inequality in the expanding modern sector may thus be higher than the inequality in the stagnating traditional rural sector.

Development economists – at least a vast majority of them - will find it very difficult to accept the second part of the Kuznets Hypothesis giving the good news that ultimately (in the long run, when we are all dead according to Keynes) income redistribution will favour the poor. Neither is there ample evidence to support the first part of the hypothesis that at the initial stages of economic growth, income distribution has to go worse. Case studies in Taiwan, Republic of Korea, Costa Rica, Srilanka, Hong Kong and China show that higher income levels may be accompanied by falling income inequality.

Economic Growth and Income Distribution in Bangladesh

What has been the growth and distribution scenario in Bangladesh in the last four decades of our independence? First it is worth noting that in the last half century or so, Bangladesh has managed to crawl into some kind of growth path compared

to the galloping growth in several East Asian and South East Asian countries, namely, Republic of Korea, Taiwan, Singapore, Hong Kong, Thailand and Malaysia. The economic growth path revolved around a rather slow 04 percent or so of annual GDP growth until the end of the 80s. During that period, annual population growth rate was quite high climbing down slowly from 3.2 percent or so. In the last two decades, i.e during the democratic dispensation in governance, the annual GDP growth rate has ranged from a 5.5 percent to 6.5 percent. Due to early and effective campaign in favour of population planning, annual population growth rate declined to below 1.5 percent along with an initially impressive reduction in infant mortality, maternal mortality and in total fertility rate. But in very recent times, annual population growth rate might have started rising which may now be as high as 2.5 percent except that the government does not seem to be cognizant of this. No one may contest the sad stagnation in the key indicators, TFR, Contraceptive Prevalence Rate, infant mortality and maternal mortality. Acceleration in the GDP growth rate since the restoration of democracy in 1991 and the continued decline in the annual population growth rate until the early twenty first century caused an increase in the per capita income. The revitalization of the rural economy with singular attention to the agriculture during the second half of the 90s along with the adoption of a “growth with equity” approach might have contained the Kuznetsian deterioration in the income distribution for some time. On a medium term basis, however, the income distribution in Bangladesh has suffered a secular adversity. The gini-coefficient in Bangladesh rose from 0.27 in 1974 to 0.34 in 1988 to 0.47 in 2008. The fact that the number of people under the poverty line, however, imperfect it may be, rose from 50 million in 1972 to 60 million in 2008 according to the world bank inspired estimates (40% of the population) and to nearly 75 million (the population of the country at its birth) as per the UN estimates (48%) may only partially demonstrate the burgeoning income disparity.

Solow Model : The Residual Growth

The remarkable proposition of the neo-classical economist Robert Solow is that an increase in the output resulting from an incremental increase in the availability of capital cannot be apportioned in its entirety to the capital because the cooperating labour has also added to it through its further and fuller utilization. The limitation of this phenomenon, amongst other things, lies in its ability to project an increase in the income to the underemployed labour without giving an idea about the relative movement of the income of the entrepreneur-capital owning people versus the labour service contributor. Incomplete as it is, the

Solow Model's residual growth phenomenon explaining the share in the output that cannot be apportioned to capital and labour in terms of technological progress may be interpreted as worsening the relative income distribution. Then there is the powerful 'surplus value' theory of Karl Marx which asserts that the capitalists cause technological advancement not only to increase the pace of growth with the given level of factor endowment but also to squeeze out the wage of the labour for creating surplus value for itself. But it has been observed in many countries that the successive stages of growth enunciated by Karl Marx may not occur after all.

Inappropriate Technology and Preference for A Relatively Capital Intensive Technique

In many developing countries, including Bangladesh, the explicit or implicit notion of a greater importance of material capital formation in enlarging the output may have influenced the mindset of the policy makers as well as the capital investors to opt for a relatively labour substituting technology even in a labour abundance situation. This wrong approach may also be imposed on the external assistance receiving countries of tied loans from the technology selling (very often obsolete in their countries) development partner countries. The material capital owning/investing class itself could have been lured into a relatively capital intensive production option for fear of labour unrest. Whatever the reasons, the consequence is an inevitable disaster- a consistent rise in the unemployment rate which in itself has to be a major cause of personal income disparity. The savings-investment gap limits the extent of economic growth due to a shortage of the required level of investment that could absorb the new entrants into the workforce. The situation is further aggravated by the preference for a technology that substitutes human service / labour by capital machineries.

Education and Human Capital

Many economists and social thinkers consider an expenditure in education to be an investment in human capital formation which provides services for years to come. A review of the factors that explain the relatively faster economic growth in the East Asian countries in the past and in Malaysia, China, Thailand and India at the present time, higher rate of literacy appears to be a leading cause of such acceleration in growth. Even within the general increase in the literacy rate, the pace and extent of technological content and growth in the curriculum seems to be directly related to the GDP growth rate in a number of countries. In very recent times, it has also surfaced that the higher the spread of tertiary education, the stronger is the wind in the sails of the growth ship. Very high GDP growth rate in

the Republic of Korea with very high enrollment rate in tertiary education compared to virtual stagnation in a relatively neglected higher education in Japan lends credence to the world bank advocacy for a knowledge based society.

Bangladesh has a literacy rate of 63 percent with many doubts hanging on the quality of education. The international community even expresses doubts if the literacy rate is as high as claimed. It is acknowledged all around that the technological content of the education in Bangladesh is quite modest if not low. The higher education is in a state of confusion and disarray if not on a dangerously low wave length. The recognition of the paramount need for vastly reforming the education system has prompted the current government to cause formulation of a new education policy that will (a) unify the extended primary education up to grade eight in mother tongue with a minimum core of subjects (b) vocationalize the secondary education, (c) vastly strengthen the tertiary education and (d) use education as an instrument for building a progressive, secular and prosperous digital Bangladesh. Significant emphasis has been laid on improving the textbooks making these much more attractive and making these available on time free of cost to all primary and secondary level students. Singular attention has been pledged in improving the quality of teaching by means of recruiting more and more qualified teachers and ensuring their training. An Accreditation Council has been planned for neutrally, independently, judiciously and effectively evaluating and ranking the universities and specific programmes under these. The need for restoration of the status and honour of the teachers by enabling an optimal environment as well as helping them regain their dignity through inculcation of higher morales and standards has also been felt more than ever before. No question the compensation package and other attendant material benefits are of great relevance in encouraging the teaching community to wholeheartedly concentrate on giving full time attention to teaching. It is, however, a poor commentary on the national priority in education as reflected in a relatively low allocation, only 2.4 percent of the Gross Domestic Product to this sector responsible for human capital formulation. Kabir Chowdhury Education Commission has thus made a strong plea in vastly and steadily increasing the share of education sector outlay to levels comparable in other fast growing developing countries i.e. to reach a level of 6.0 percent of GDP in the next few years.

Although there is some confusion regarding the actual extent of unemployment in Bangladesh, it will be fair to say that it is at least 30 percent. Moreover, there is a simultaneous existence of open unemployment along with importation of education service by hiring of external hands in very many skills and trades. This

can happen only in a situation of serious mismatch between the type and skills of education provided by the educational institutions of the country and the pattern of skill demands felt by the employers of business and industry. It is thus of great importance that while the new education policy is approved and implemented sooner than later, provisions are kept for conducting a manpower survey for (a) cataloguing the professional expertise and skills types and quantum that will be needed in efficiently manning the development plans, the perspective plan, the five year plans and the ADPs up to the year 2021 on the one hand and (b) the ability of the existing educational institutions of the country to produce the same quantity and quality of the required human services on the other. The resultant gap will have to be bridged by a thorough overhaul of the reformed education system.

Case for An Employment Based Development Planning

The proposed modernization and reorientation of the education system from a general liberal one to a more technical and vocational type at the primary level as well as redesigning the tertiary education towards meeting the applicable knowledge creating leaders in all sectors may help expansion of a more usable workforce in nation building. In addition to the implementation of the resolve of the present government to providing one job to each family, the government may consider a national service type obligatory deployment of the university and college goers. The scheme will require all students at the university and colleges to spend a full semester, preferably in the winter, in a nine credit supervised practical study at the rural areas. They will earn the nine credits equivalent to a normal semester through satisfactory performance of the following tasks:

- a. birth registration;
- b. motivation in support of small family norms;
- c. resource mapping;
- d. climate change mitigation;
- e. dredging of rivers and canals under the proposed national programme;
- f. campaign in support of universal enrollment at the primary level; and
- g. any other task that may be assigned such as census, arsenic mitigation, vaccination etc.

This practical training will familiarize the future leaders in various sectors with the down to earth issues of nation building. The graduates thus trained and educated may be much more focused in their respective future career assignments. The cost of financing the temporary employment-cum-practically oriented education may have to be shared between the student and his/her respective education institutions. One formula may be for the respective university or college

to forego the tuition of the student for the semester and for the student beneficiary to pay for the accommodation and food. For those students under merit scholarship or need based financial assistance, an appropriate funding mechanism may have to be evolved.

Sustainable Human Development Through Employment Generation

The perpetuation and expansion of the curse of poverty as well as deterioration in income disparity at the interpersonal and interregional level within the country will have to be regarded as the number one challenge facing the country and its socio-economic development. The gini-coefficient is increasing, the number of people under the poverty line is swelling and the deprivation of the poorest of the poor, bottom 10 percent of the people (reported to be in possession of a little over 01 (one) percent of the national income and asset) is further aggravating. The much trumpeted “success” of the microcredit “magic” does seem to be yielding only limited success, if any. The sad conclusion has to thus be a failure of the traditional model of poverty eradication. In our view and by no means it is new, is that a strategy of “growth with in built equity mechanism” may be the only effective instrument of an all embracing sustainable human development (SHD) phenomenon. As envisaged by UNDP in evolving the concept of SHD, people are put at the centrepiece of the development process. They plan, implement, monitor and evaluate all the activities and are the real gainers in a Win Win situation as participants as well as beneficiaries in the new development paradigm. The alternative measure of welfare, Human Development Index, HD, under the SHD regime is defined as a weighted average of (a) life expectancy at birth, (b) literacy rate plus length of schooling and (c) per capita income as a proxy for purchasing power. HDI is thus a more realistic measure of welfare emanating from the fruits of a development process. The SHD scenario can be effectively put in place through the proposed upazila scheme for significant decentralization of the development finances at the local levels. The government would do well to remove the irritant caused by the superimposition of the Member of the Parliament as a watchdog advisor on the upazila parishad and draw up a medium to long term scheme for gradually increasing the share of the upazila in spending the ADP outlay.

In this connection, two issues of vital importance need to be addressed. Compared to the 85% of the national investment being channeled through the public sector in 1974, its share has come down to less than 20 percent now. With such preeminent emergence of the importance of the private sector in the expansion of GDP, does the government have much leeway in shaping an employment based

development scenario towards poverty eradication and sustainable human development? The point that is to be borne in mind is that the government (including the public sector) is to provide for the creation of the infrastructure for development – physical, social, policy, governance, regulation etc - for the private sector to perform at its utmost efficiency. Thus the market and the private sector through involvement in the large industrial projects and service activities will generate the lion's share in the annual GDP growth. The public sector as the complementary force (in addition to the parental role of creating the infrastructure) help creating the linkages, backward one in particular, for ensuring employment generation in the micro, small and medium enterprises (MSME) for poverty eradication as well as reversing the trend of income disparity at personal and regional levels.

The other point of crucial importance to take cognizance of is the drastic change in the structure of the GDP of the country. In 1972-73, GDP comprised of 60% contribution from the primary (agriculture) sector, 11% from the secondary sector (manufacturing and construction) and 29% from the tertiary sector (services). In recent times, the composition of GDP has changed to roughly 20% contribution from agriculture, 30% from manufacturing and 50% from the tertiary sectors. Remembering that the GDP of Bangladesh has increased 136 times between 1972-73 and 2008-09, the percentage reduction of the share of agriculture should not obscure the tremendous growth in the sector which also employs more than 50 percent of the total workforce in the country in addition to feeding the nation. What should be a matter of big concern is the prematurely large growth of the service sector in the pattern of a developed country. To the extent that the service sector growth is a result of the expansion of education and health services of the public goods type, it has to be a welcome development. However, in most cases, the expansion of the service sector relates to the profit seeking trade and commerce without much potential for employment generation. Such a service sector growth has to be and is a matter of grave concern in Bangladesh for a lucratively high profitability in the trade and commerce has been acting as a damper to the job creating and disparity reducing employment generation in the manufacturing sector. More appropriately for effective poverty reduction which will also simultaneously help reduction of disparity, a big push will be necessary in strategically placing the MSME strategy into the highest level of national priority.

Now here are some details on the proposed MSME strategy. To the extent that a micro or a small enterprise industry uses the agricultural output of the country as its inputs (e.g. agro based processing industry), its gestation period is small, there

is low capital investment requirement and practically no imports are involved in such simple technology based gender friendly industrial units. What are additionally required are a set of entrepreneurs all over the rural areas of Bangladesh and access to highly concessional credit at minimized harassment. Many private universities may be inspired to get into a MIDAS type scheme of training of the potential small and micro entrepreneurs who may be drawn from those who have graduated out of the poverty barrier using microfinance. It is worth recalling here that many universities in USA have set up Small Industry Incubators for creating entrepreneurs who will get out of the incubators with the knowledge (a) to formulate a small/ micro industry project (b) to operate and manage the production process (c) to access highly concessional windows of financing to be put in place by the government and (d) to market the processed output home and abroad. The incubators are also expected to undertake research on the potentially profitable MSME areas and to prepare case study booklets containing appraisal of such ventures. Needless to say, the chance of success of the scheme will be enhanced by the proposed one semester nine credit obligatory deployment of each student of all universities /colleges. Availability of credit at a rate just above the Bank Rate (5%) – 7% or so (and not 10%) without any other time or money cost is also of crucial importance. Bangladesh Bank has made a promising start in formulating a Small and Medium Enterprise Credit Programme with an articulation of ground rules as well as the identification of sectoral coverage district wise. What is particularly good about the Bangladesh Bank scheme is the explicit recognition of the urgency of lowering the size of the refinance window to taka 50,000 (fifty thousand) from the previous level of taka 2,00,000 (two hundred thousand). The government will have to redefine the “small industry” accordingly in its forthcoming New Industrial Policy, 2010. For Bangladesh Bank constant priority, surveillance and monitoring are in order to ensure the success of the scheme so vitally linked to the task of poverty eradication through employment and income generation.

Micro-Small –Medium Enterprise (MSME) Strategy

It is worth reiterating the resolve that by creating an MSME strategy, the country will not in any way minimize the paramount importance of making big strides in large scale industrialization for leap frogging the GDP growth. MSME is a link effort in supplementing rather than supplanting the role of the large scale industries where newly emerged sectors (shipbuilding, watch making, leather, ceramics, sports goods etc), the regenerated jute goods sector and other potentially productive sectors will be developed and nursed for diversification of

the economy. Someone may legitimately question the future of the MSME venture in view of the critical energy and power shortage. For a very long time, people like us have been pleading for an expansion of the environment friendly renewable energy strategy. What are involved are (a) a resolute change in the mindset of the government towards a big push in generating solar and biogas energy of up to 1000 MW in the next four years and (b) furthering the good start at the Prime Minister's Office partially solarizing the energy use for its demonstrated patronization in the high and powerful centres of governance for making people believe that solar and biogas energy can be a helpful supplementary force to the electricity supply in the country. The country can take pride and envy about quality and reputation of Rahimafroz Battery now being exported to several countries including India, Nepal and Srilanka. Nature's bounty of having eight to ten hours of bright and strong sunshine eight to nine months a year is also a big positive factor in the spread of solar energy which can now be stored for use in the rainy dark days. The experts also tell that there is an over supply of solar panels in the world and large scale imports are not a problem. The clustering of village residences provide an ideal setting for a small to medium enterprise to use a bigger panel for receiving, storing and distributing solar energy to these houses. With the demand created for energy in the rural areas through the proposed net work of MSME, the stage is set for an expansion of renewable energy i.e solar and biogas energy for powering the agro processing micro and small enterprises acting as vehicles of employment and income generation for poverty eradication. The perspective plan projection of reducing the poverty incidence to 15 percent and the MDG goal of eradicating poverty to half by 2015 are achievable if and only if an employment generating plan is adopted and implemented. An MSME strategy will cause higher local value addition and is not in conflict with any other stream of economic activities proposed or foreseen to be undertaken in Bangladesh.

Many schemes such as the Mithapukur Area Development Plan of H N Ashequr Rahman and the Four Cow Biogas Energy Project of Dr Mozammel Huq may be further scrutinized for replication throughout Bangladesh for a multi-prong versatility in further vitalizing the economic growth process that prevents rather than create income disparity. Growth with an in-built mechanism for equity as exists in the models cited and in many others in existence in Bangladesh may be holding the key to sustainable human development in the country.