

Conference Address

The Political Economy of the State and Market in Bangladesh

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BACKGROUND

Bangladesh's Policy Inheritance

Bangladesh has been exposed to two decades of economic reforms which have been untiringly promoted by the World Bank. The underlying philosophical premise of the reforms has been the need to downsize the role of the state in economic management whilst enhancing the role of the market in guiding economic choices. As a result of these reforms Bangladesh has today attained a largely liberalized import regime, a much reduced public sector, very limited input subsidies for the agricultural sector and in the area of manufacturing a much reduced public sector where virtually no new investment has taken place in the last 15 years. In the financial sector interest rates have been largely left to the banks, where the presence of the private sector has been substantially expanded and directed credit has been largely eliminated.

However, in the interim period, at least over the last decade, the World Bank's own philosophy has been undergoing some change starting from its President James Wolfensohn and percolating down to its World Development Report (WDR). The 2001 WDR on poverty was thus a rather different document from the 1990 document. The Bank is now much less categorical on the issues of import liberalization, privatization and de-subsidization and is willing to recognize that reforms in these areas may have created some problems for those affected by the reforms. How far this flexibility in the Bank's philosophical posture is reflected in the country strategies and programmes merits investigation.

This evolution in the World Bank's thinking reflects changes in the development discourse over the course of the 1990s. It is now increasingly recognized that

neither economic growth nor poverty reduction may emerge as the inevitable outcome of the reform process. Indeed prolonged stagnation and the perpetuation of poverty appears to be more in evidence in many reforming countries throughout the Third World. The contemporary development discourse, which seems to be inadequately reflected in the policy concerns of successive policymakers in Bangladesh, argues that poverty eradication should be prioritized over growth, that policy agendas should not be externally imposed but domestically designed as well as owned. Thus, the effective implementation of any reform package depends on the quality of governance, measured in terms of the accountability and transparency of the government and its commitment to democracy and human rights.

The Changing Face of the Donors

My address today to the members of the Bangladesh Economic Association argues that this shift in the development philosophy of the international agencies is likely to be of little consequence to the course of the development process in Bangladesh. The move towards establishing greater ownership over the reforms though the preparation of a *Poverty Reduction Strategy paper (PRSP)* reflects little more than a cosmetic change in the thinking of the Bank in Bangladesh or much of the Third World. PRSPs, as they have emerged in practice, have basically been built around the core of *structural adjustment reforms (SAR)* which have been imposed by the Bank on economically vulnerable countries across the world. These reforms have now been made more palatable by the emphasis on poverty reduction, captured in the commitment of more resources for human development and safety net programmes to protect the poor from the consequence of reforms. The new conditionality which is presented to all Third World Finance Ministers demands that they should come to the annual Aid Group consultations with a PRSP which incorporates all the Bank/IMF policy reforms they had already imposed on these countries over the last decade.

It is not surprising that the PRSP process in many developing countries is being viewed with some cynicism by their Finance Ministers who see it as reflecting the face of the old World Bank decorated with a new brand of cosmetics. This may be quite contrary to the thinking of James Wolfensohn who remains generally committed to poverty eradication and redirecting the mission of the Bank. But there is a sizeable gap between Washington DC and the realities on the ground in Africa or Asia. Country programme managers who are committed to a reform process put in place over the years remain reluctant to advise Finance Ministers that import liberalization is no longer an integral part of the Bank's mission in Bangladesh or that the Minister may pursue these agendas with greater flexibility in response to Bangladesh's circumstances. Nor have other, more ideologically

driven organizations such as the IMF or bilateral donors such as the United States, readily come to terms with the limitations of the SAR reform experience.

As far as these more ideological donors are concerned, most Third World countries have not done enough in the way of reforms and more pressure should be put on them to carry through reforms which are in keeping with the philosophy of the *Washington Consensus*. World Bank operatives in the field are, thus, more keen to maintain common cause at the country level with such old allies in their relations with the Government, than to reconstruct their mission in keeping with the specific needs of the host country.

The Declining Influence of the Donors and its Consequences

In Bangladesh today, we are therefore, caught up within a peculiar paradox. The lead agency attempting to influence our policy agendas now lacks the conviction to sustain its inherited strategies but remains disinclined to open its mind to a genuine dialogue with domestic constituencies to promote a more creative agenda for change. Instead, the Bank and other donors are bringing in new elements into the development discourse extending from human rights, judicial reform, anti-corruption and local self-government, along with its standard package of reforms, which is at least 20 years old. However, since aid commitments to Bangladesh have remained stagnant for the last decade, the share of aid in relation to both GDP and the development budget has steadily declined. Thus, today aid disbursements are around 60% of remittances to Bangladesh by our overseas migrant workers. This declining contribution of aid to our development effort has consequently reduced the leverage of the donors in enforcing change in our policy direction or governance.

The declining influence of our donors on the policy agenda has done little to encourage successive regimes to initiate a more indigenous process of policy reform, drawing upon domestic expertise backed by a political consensus. We are therefore left with a policy package which has already lost its political legitimacy at the global level and has largely failed to realize its primary mission, either in Bangladesh or in most countries, where it has been in operation. This hiatus in Bangladesh's policymaking process has left us in a state of limbo. Our policymakers are incongruously still arguing for a reform agenda, which has gone out of fashion at the global level, in which they themselves no longer believe, and which has done little to transform Bangladesh.

THE NATURE OF THE BANGLADESH STATE

The Deligitimisation of the State

This incapacity to restore sovereignty to Bangladesh's policymaking process has contributed to the erosion in the credibility and authority of the state. In the eyes of the public the state had some years ago surrendered its policymaking prerogative to the donors and was seen to be more accountable to the donors than it was to parliament or the voters. Today, as the influence of the donors has eroded the state is seen to have lost its moorings, remains directionless and has limited capacity to deliver either on its own commitments to the electorate or to honour its obligations to its external partners. Such a rudderless state is progressively delegitimising itself in the eyes of its citizens, who mostly see the machinery of the state as part of the problem rather than the solution to their daily concerns.

The Crisis in Governance

The erosion in the legitimacy of the state originates in the crisis in governance which has been perpetuated over successive regimes. This crisis manifests itself in the breakdown in law and order, the non-performance of the administration and the dysfunctional nature of our parliamentary democracy.

In the eyes of the citizens of Bangladesh the state is itself the source of the breakdown in law and order. The patronization by successive governments of a criminal class, who have become instrumental to the functioning of our principal political parties has brought the machinery of law enforcement into contempt. The law enforcement agencies lack the authority to enforce the law so they now only act in the service of the ruling party, in gross violation of human rights or the preservation of democratic norms. In such circumstances, law enforcement agencies, knowing that there is no premium on doing their duty, have now effectively commoditized themselves and offer whatever services the complainant or law breakers are willing to pay for.

The subordinated nature of the lower judiciary fails to guarantee to legal rights of the victims of partisan law enforcement. It is no accident that successive regimes have reneged on their commitment to separate the judiciary from the executive.

In the same way, the administration, has also been parochialised and commoditized to a point where it has effectively become dysfunctional. Successive regimes, have sought to patronise those in the administration who they think will be serviceable to the interests of the Party in power or the ambitions of particular political individuals. Conversely, those officers deemed to be linked to the outgoing regime are marginalized, persecuted and even removed from the

service. This culture of partisanship has now infected the bureaucracy to the point where professional advancement is delinked from performance or integrity and is increasingly linked to political identity and the extent of patronage accessed by an officer. This parochialised administrative culture has encouraged rank opportunism, protected corruption as well as incompetence and jeopardized the careers of committed professionals.

The bureaucracy is now divided and consumed with insecurity to a point where there is neither continuity nor the application of norms in the discharge of administrative responsibility. As a consequence the Public Services Commission, once directed by people of recognized administrative authority and integrity, has now become an instrument of political patronage and jobbery. Most agencies, engaged in delivery of goods and services or exercising regulatory functions, have now created a private market for discharging their public responsibilities. The days when bureaucrat were driven by a sense of public mission, built on expectations of professional recognition and advancement, remain in distant memory. In such circumstances the administrative system is rarely capable of implementing any policy and is largely seen as an agency for rent-seeking from the helpless citizens.

State Failure in Health Care

Such a debased administrative culture has led to state failure in the delivery of virtually every public service ranging from the nationalized banks, to the ports, power, gas, water supplies and postal agencies. The health care and education services have degenerated to a point where it is a misnomer to term them as a public service. In everything from hospital beds, to clean sheets, basic diet, bandages or medicines, to the delivery of a bedpan, payment has to be made to a public service provider. Doctors and nurses are overworked and underpaid so that have taken compensatory refuge in private practice whilst remaining in public service. This often ends up in a conflict of interest. Advancement is now politicized so that the politics of the Bangladesh Medical Association has now become no less confrontational than in the conventional political arena.

The Crisis in the Education Sector

The education system has been commoditised and devalued at the primary and secondary level even as we invest a growing share of the budget in this sector. Our institutions of higher learning have not so much become politicized as criminalised. What passes for student politics is really the patronization of gangs of armed businessmen who use the campus for commercial advancement and extortion in return for military services rendered to the major political parties.

This small section of commoditised musclemen, patronized by the ruling party, rule the campus while those who serve the opposition become fugitives from the law until they join the ruling party and obtain protection from the law enforcement agencies.

Teachers are divided and politicized not so much on ideological grounds but for reasons of career advancement. The factionalised teachers reach out for the patronage of political parties as much as the political parties seek to use teachers to serve their political interests on the campus. The unholy alliance between politically patronized teachers and commoditised musclemen has undermined the credibility of once famous campuses, which have throughout our history been at the vanguard of Bangladesh's democratic struggles.

Such debasement of our educational culture has introduced terror and insecurity into the lives of the great majority of students who seek nothing more than a decent education, paid for by the modest resources of hardworking parents. The great majority of the teachers, who remain dedicated to an academic life where they can professionally develop themselves, remain demoralized and unable to realize their full potential.

The Crisis in our Democratic Institutions

This degeneration in virtually every agency of the state originates in the crisis in Bangladesh's democratic institutions. The greatest political asset which should have been the bulwark of Bangladesh's democratic process - the emergence of a functioning two party system - has degenerated into a bipolar system built on an almost unique state of political confrontation which has paralysed our parliamentary institutions. Whilst Bangladesh's has had three successive parliamentary elections, resulting in two changes of regime, two parliaments, from 1991-1995 and then from 1996-2001, have become dysfunctional due to the absence of the Opposition. The current parliament may follow suite if there is no demonstrable change in the political culture. A dysfunctional parliament has made it difficult to keep the government of the day accountable and has effectively disenfranchised a large section of the voting public. When parliament functions at all, projects intolerance on the part of the ruling party to the rights of the opposition, intemperance in the quality of discourse on the floor of the House and a disability to use the legislature to guide constructive debate and legislation.

The only saving grace of a decade of parliamentary life has been the role of the Parliamentary Committees in the outgoing Parliament to establish some accountability from the Executive. The device of making non-Ministers Chairmen introduced in the outgoing parliament and the participation of the Opposition in

the Committees, even when they were boycotting the parliament was a salutary example of what we may expect from a functioning Parliament. The Opposition in the Parliament is yet to realize that the best way to serve their electorate as well as their own political interests is to stay in Parliament rather than walk out at the least provocation.

A dysfunctional parliament, in turn, reflects a malfunctioning political system, where political policies are become depoliticized and are increasingly being used to pursue private agendas rather than implement political commitments. The ascendance of money and muscle in our political life has transformed the electoral process into a rich man's game where fire power has become common currency in the service of politics. Such a process has effectively marginalized women and the economically deprived from being effectively represented in our elective bodies.

THE ROLE OF THE MARKET

From State to Market

This deterioration in the institutions and practices of the state is compromising its legitimacy. The average citizen is disinclined to look to the state to solve their problems, and basically entertains minimalists expectations from the state that it will do them no harm rather than provide them with any effective service. The incapacity of the state to serve its citizens is encouraging people to turn to alternative agencies for the provision of goods and services, health care, education, even law enforcement. The emergence of private security agencies and the increasing resort to *ganopitai* (mass beatings) of criminals apprehended by the public, reflects the erosion in the authority of the state. Individuals families, functional groups, regional associations now look inwards to protect themselves or their families or to seek group advancement.

The Nature of the Market

In such an environment of disengagement from and by the state it may be expected that market forces would increasingly come to respond to the demand for goods and services of the population. This indeed is the case in most areas of economic and public life. However, it must be kept in mind that markets operate within the political economy of particular societies which influences both their efficacy as well as the incidence of benefits to these served by or serving the market.

Markets do not function as economic text books would expect them to operate. In Bangladesh there are multiple markets for the same commodity or service.

Whether you are rich or poor, politically patronized or powerless, have connections with bank managers or service providers, determines how the market will serve you.

Markets are expected to link effective demand with supply chains, through the medium of the price mechanism. In practice, however, all demand is not always effective insofar as those who articulate such a demand may not command the resources to pay for the demand. All people want quality health care, and education for their families, but such a service may only be on offer in the best private schools and clinics. Even within this private market only a narrower segment of the population can afford to send their children to a top quality English medium school such as *Scholastica* or can avail of the *Sikder Hospital* or even *Escorts* in Delhi or *Queen Elizabeth Hospital* in Singapore, for open heart surgery.

At lower end of the market the poor can only afford the services of quacks, failed MBBS practitioners, faith healers, purveyors of traditional medicines or even compounders in pharmacies. The very poorest cannot even afford such services. The private market for health care thus ranges across a wide range of income capacities, where the size of ones purse, as much as the health compulsions of the user, structure the market linking supply and demand. It is not to be ruled out that poor families, faced with the death of a dear one, may bankrupt themselves to save that persons life so that income may not be the exclusive determinant in the resort to the market but the intensity of the demand.

Similarly the supply of education services are also structured by the effective demand of the consumer. Private educational facilities at the village level have proliferated with the incentive regime provided by the Bangladesh government to pay the salaries of all teachers in such establishments. Profit making compulsions of such private schools, however, lead to the underprovision of educational service based on use of underqualified teachers or through overinvoicing the supply of such teachers or savings on the supply of collateral facilities such as text books or blackboards.

Areas of Market Failure

The market is now generally the main source for providing most goods and services in Bangladesh. In the agricultural sector private operators or suppliers provide everything from irrigation to fertilizer and pesticides or the repair of farm equipment. However, access to this market remains unequal and underserves the poorer farmers. The private sector underprovides and in many cases fails to provide, the much needed supply of quality extension services which advises farmers about the appropriate mix of fertilizer to be applied to particular soil types

or pesticide needed for a particular crop infestation. Extension services, if supplied at all by private input suppliers, often reflect a conflict of interest in providing such services.

Significantly, what the private market has failed to supply is the actual production of, for example, fertilizer. There is obviously a large effective demand for both nitrogenous and phosphoric fertilizers which is today largely met from public sector enterprises set up under the Bangladesh Chemical Industries Corporation (BCIC). The last such project to be set up through BCIC was the ill-fated KAFCO project which was a joint venture between BCIC and a consortium of foreign companies. Whilst domestic demand for fertilizer has continued to expand in the country over the last 15 years, no new investments have been made to meet this demand. The BCIC, under donor pressure to eliminate the public sector from the manufacturing sector, has not come forward to invest in this sector. However, this vacuum has not been filled by the private sector, whether local or through foreign capital investment. Investments in this sector are highly capital intensive. It would appear that the private market remains disinclined to bear the risk of such a large investment with an extended gestation period. Even though the pricing of fertilizer is now desubsidised, its distribution privatized and demand assured, the market has failed to respond to this effective demand from the farmers of Bangladesh.

Market Responses in the RMG and Textile Sector

Market failure to respond to a wide variety of domestic manufacturing needs has become evident over the last two decades where the public sector has been effectively disbarred from making new investments in the manufacturing sector. In contrast, the private sector has invested heavily in the area of Ready Made Garments (RMG). Such investments have been encouraged by the protected global market regime associated with the *Multifibre Arrangement* (MFA) which has provided quota assured markets in the USA and the advantage of duty free access to the European Union (EU) under the GSP facilities available to Bangladesh as an LDC. Investment in an RMG enterprise remains less capital intensive which encourages investors with modest resource and lowers their exposure to loan financing. This protected market is now under threat and may disappear after 2005 when the MFA is phased out.

In recent years investments in backward linkage industries to supply the RMG sector have been made in spinning, weaving, dyeing and finishing though more rarely, in integrated textile mills. This is creditworthy and reflects the development of more ambitious risk bearing capacity of our private entrepreneurs since such investments are far more capital intensive than in the RMG sector.

Unlike investment in the RMG sector, investment in the textile sector, particularly in spinning and weaving, requires significant loan financing and considerable risk taking capacity. The availability of a 25% state subsidy to the textile sector, to supply the input needs of the export-oriented RMG sector, has provided a strong incentive for local investors. Such investors may otherwise have been reluctant to come forward and compete with traditional sources of imports of intermediate inputs to the RMG sector, from India and China. In a market regime unprotected by the MFA and with subsidies eliminated under WTO rules the viability of the RMG sector in a free market regime will pose a major challenge to the Bangladesh economy, policymakers and private sector.

Market Failure in the Industrial Sector

Outside the RMG and linked textile sector, market response to the demands of domestic consumers of light engineering products, consumer electronics, chemicals, even steel products, not to mention a wide range of consumer goods, has been relatively modest. As may be expected the needs of the low income groups remain underprovided by local investment. Nor has there been an adequate supply side response in areas of potential comparative advantage for Bangladesh in labour intensive manufacturing exports to the international market. The experience from the RMG sector should have opened up export opportunities for leather products, light engineering, electronics and soft toys. However, there have been few replications of the success of the Apex Group in exporting quality footwear to the global market. The absence of an assured market, as in the case of the RMG sector, may have been a constraint. But the availability of market access under the GSP should have elicited a better response from Bangladesh's exporters to the EU market. In most of these areas investment has been modest to the point where Bangladesh's export growth in the last decade has become progressively more concentrated in the RMG sector which today accounts for 75% of our commodity exports and 75% of the incremental value addition in the manufacturing sector.

Other growth sectors such as cement and pharmaceuticals cater largely to a protected domestic market in Bangladesh. The booming cement industry, serving the fast growing construction sector, consists of little more than the import of cement clinkers manufactured elsewhere, which are ground and bagged in Bangladesh. The value addition from the local cement industry remains limited and it only survives because of the duty preference provided to import of clinkers over bagged cement.

Thus, whilst a whole range of traditional industries have failed to cope with foreign competition arising from both import liberalization and rampant informal imports from across the border, very little in the way of a new generation of industries has emerged to take their place, in response to market signals. This reflects a measure of market failure on the supply side.

Markets and Class

In one of the fastest growing sectors of the economy, housing, Bangladesh's private sector represent a success story. The conversion of Dhaka from a *mofusil town* a Metropolis is manifest in the transformation of the nuclear house into high rise structures. The rising skyline of Dhaka and Chittagong and even in other district towns, indicates that our builders have developed the technology for constructing multi-storied structures of a quality which is superior to anything on offer in Kolkata if not Bombay. This, in turn, reflects the fact that there is an increasing willingness on the part of house and land owners to add value to their valuable real estate by turning these into high rises. This process is sustained by demand from the middle class prospective homeowner, to buy such apartments and that private savings and loan financing are available to underwrite such investments.

However, this demand for apartments appears to be concentrated in the upper end of the market and is concentrated in an upper class buyers range of the middle class. The response to the housing needs of the middle class with more modest means, is only recently being met. The construction market falls far short of meeting a vast, unsatisfied demand for apartments available within a price of Tk 5 to 10 lakhs.

What remains totally outside the supply capacity of the market is the response to the effective demand for a vast population of prospective homeowner from the low income classes in the metropolitan areas, towns, *Upazillas* and even in the rural areas. Prospective homeowners are willing to buy such houses, if some bank financing is provided. This is already evident from the fact that 10 lakhs of poor people have built homes in the rural areas through housing loans provided by Grameen Bank and are effectively servicing their loans. Here the main constraints remains the issue of property rights and bank financing but above all it is the failure of the construction as well as capital market to respond to the needs of the deprived.

Markets Response and Policy Failure

My discussion of instances of market failure can be amplified and examined in relation to the varying complexities which condition these failure in specific sectors in the context of Bangladesh's political economy. In Bangladesh some of these failures originate in policies, some in the financing regime, some in institutions and some in unequal nature of our society. At the policy level, a variety of factors may influence investment behavior. The most obvious of such policy constraints is the indiscriminate resort to import liberalization which exposed not just traditional but even relatively new manufacturing enterprise to

unequal competition from more mature suppliers from more advanced economies. There was very little attempt to recognize the protectionist needs of infant industries which has been a well established part of the economic literature from the days of Alexander Hamilton's *Report on Manufactures* written at the end of the 18th century to Fredrich List's theory of infant industry protection, which guided the industrialization of Germany under Bismarck in the later part of the 19th century. The supply response of a new generation of entrepreneurs in Bangladesh was, thus, conditioned by the unequal terms on which they had to operate, with minimal if not negative support from the state. The small and medium enterprise sector was the most seriously affected in this unequal market competition within an open trading regime.

Policy failures were compounded by the virtual collapse of the financial market for the manufacturing sector. Manufacturing investment in Pakistan, India and much of East Asia has traditionally been underwritten by specialised development financing institution (DFIs). In Bangladesh IDBP and PICIC in the 1960s were transformed into BSB and BSRS in the post-liberation period. These institutions provided term financing for industrial investment whilst commercial banks provided the commercial loans. The massive debt default to the DFIs in the 1980, due to politically patronized lending has led to their effective collapse. The virtual cessation of term lending by the end of the 1980s compelled the Government, in the early 90s, to pressurize the Nationalized Commercial Banks (NCB) to transform themselves into term lending organizations. The accumulating loan defaults to the NCBs undermined their viability as it did for the DFIs and eroded a major source of term financing for industry. The stock market has never been a significant source of equity finance for industrial investment in Bangladesh. Its short lived boom and collapse at the end of 1996 has compromised the effectiveness capital market as a source of financial intermediation to link savers and investors. Historically small and rural industries serving the poor have been denied access to institutional finance from the DFIs or NCB.

Obviously the failures in the banking sector and capital market reflect the corrupting influence of a default culture where a class of entrepreneurs finds it more feasible to resort to malfeasant business practices and to then take the shelter of weak bank regulation, ineffective law enforcement and above all political patronage to sustain their illicit practices. The default crisis is above all a problem of political economy rather than ineffective financial reforms. This experience of supply side failure in the financial and industrial sector thus indicates that markets function in the context a country's political economy and cannot be seen as a neutral allocative agency to regulate economic choice. Market fundamentalism which believes that markets can substitute state failures is thus no more valid than the belief that an ill-governed state can substitute the market.

LOOKING AHEAD

Correcting State Failure

The development discourse has long recognized that market failure demands state intervention. Historically, it was recognized that markets underprovided such public goods as health and education. In most developed countries, but particularly Western Europe and the Socialist world, the state emerged as the principal provider of education and health care. This neutralized unequal access to human development by ensuring a uniformly high quality of services for health and education and laid the foundations for a more just and egalitarian society. A corresponding need to upgrade the opportunities for the much larger number of deprived people in the developing world has established that the state must remain the principal provider of such services. Unfortunately, in Bangladesh we are institutionalising a system of apartheid in the human development sector where the very rich may expect to buy quality private education and health care provided by the domestic and international market. In contrast the majority of the population are condemned to draw upon deteriorating public health and education services and whatever the lower end of the private market can supply. Such a socially divided system of human development will institutionalize the emergence of two societies, divided by education and will perpetuate the development of a ruling class who will be able to consolidate their power thorough the superior opportunities on offer to the better educated. It is not surprising that Bangladesh's ruling class today remains indifferent to the state of public education or health care since neither they or their families are likely to use the public services. This market failure in health and education in Bangladesh has, therefore, to be compensated by major investments in the human development sector which ensure that the public schools, colleges, universities and health care system can provide a service to the deprived which is commensurate to that offered from the private market to our elites.

Compensating Market Failure

In the goods and services sector we will have to decide whether we will continue to exclusively depend on the market to meet our needs. If the market will not provide us with a urea fertilizer plants are we willing to wait another 15 years before it does? Are we to rule out all public investment in the state sector not just in the manufacturing sector but even for power generation, or are these sectors to be left exclusively to the willingness, capacity and timing of the market to provide these services when it is convenient to do so? How far are we willing to provide public resources in the way of subsidized credit, fiscal concessions and even cash subsidies to private providers in order to elicit a response from the market? All

such concessions have an opportunity cost. Subsidies to the textile sector, owned by a wealthy elite, whilst eliminating subsidies on inputs to small farmers, have to be justified in terms of both justice and efficiency. Can we at all look to the state to come forward and once again compensate market failures in a range of areas ranging from the traditional sectors of health and education, to the long abandoned areas of manufacturing and housing or the recently abandoned area of power generation?

Reinventing the State?

Based on the earlier observations I have made on the nature of the contemporary state in Bangladesh we would have to take leave of our senses if we were to invite the state, in its current configuration, to extend its domain into the productive sector. Indeed the capacity of the state to discharge even its reserved function of providing health care, education, sanitation, even law enforcement, is under challenge. We are, therefore, confronted with a *Catch 22* situation where the increasing failure of the state invites resort to the market but the corresponding failure of the market now also demands some state intervention. However, unless the state machinery can be reconstructed by depoliticizing the machinery of government, making it more accountable, transparent and participatory, we can expect little from the state in its present incarnation. However, to reinvent the state demands a reconstruction of our political life. Our political parties will have to move away from their confrontational political culture towards a more responsive and representative democratic culture. Our leaders and parties will have to reincarnate themselves as responsible statesmen committed to the public weal. Is such a transformation in our political culture feasible and what are we in civil society willing to do to encourage this political renaissance, merits ongoing debate.

Is there a Role for Civil Society

Whilst the state reconstructs itself and the market becomes more responsive is there a role for players outside the market and state? Can civil society, manifested not just through NGOs but through a much broader constituency of community based organizations, professional bodies such as the Bangladesh Economic Association, human and environmental rights organizations, even ad hoc bodies of concerned citizens, come forward and play a role? Today much of civil society is quite comfortable in pursuing our own self-centred interests and treating the political system and state of governance as a spectator sport unless it impinges on our daily lives. This escapism may not last long since our political problems are increasingly disturbing everyday life.

If we were to act thought civil society organizations we would face problems. Civil society is increasingly becoming divided along our principal political fault lines. Many professional bodies such as lawyers and doctors, even our business association contest elections on political lines. Can the BEA continue to avoid such a political division? I fervently hope so. Now we are witness to similar politically denominated divisions in the business and NGO community. Unless these professional and civil society bodies move to departisanise rather than depoliticize themselves, the potential for civil society to play a mediatory role to reconcile our political divisions will become increasingly compromised. This does not mean that economists, engineers, or NGOs, should transform themselves into apolitical eunuchs. But it does demand that political, social and economic problems be viewed on non-party lines where we feel compelled to defend our preferred party whatever may be their faults.

Towards an Accountable Civil Society

In the final analysis civil society will also have to make itself accountable not just to donors or their own conscience but to those whom they represent and serve. Here NGOs in particular need to reinvent themselves as public bodies, owned and accountable to their clients. In such a vision of civil society I would like to see NGOs become more market-driven corporations of the deprived, motivated by a public purpose rather than individual profit. Such bodies owned and representating millions of the deprived should equip themselves to intervene in the market to supply goods and services ranging from public goods to commodity trade, agro-processing enterprises and low income housing for the poor along with a broad range of goods and services consumed by the lower income classes. Similarly, micro-credit institutions should transform themselves into commercial banks operating within the provisions of the Banking Act where they can intermediate the savings of the urban sector into investments in the rural economy.

What I have presented before you is an argument rather than a definitive statement about the state and market in Bangladesh. It is designed, as with much of my writings, to provoke public debate, encourage more creative thinking from within the economics profession as well as other segments of society, including the politicians. It is only through a process of creative interaction that we can constructively explore the way out of our current crisis of the state so that we can lay the basis for a more just as well as democratic state along with a more socially responsive market responding to needs of the deprived.