

Conversation (Contd.)

'We Are Moving on to the '90s with the Failed Agenda of the 80s'

— Rehman Sobhan

'Hands of Government Are Tied in Terms of Re-allocation of Resources'

— M Syeeduzzaman

here and determine what they feel is more important. Had I done that, I'd done what some people have accused me of doing, that is presenting my own set of priorities to the new elected government. Right now the relevant priorities stand with the FFYP.

Now, I think Syeeduzzaman is perfectly correct in terms of over-estimation. I'd say all successive five-year plans have tended to over-estimate their capacity to generate domestic resources and achieve self-reliance. But there is a problem here. You see our notion of over-estimation becomes a self-fulfilling prophecy. Built into the whole system is a notion that we will do as little as possible to realise our true capabilities which are already inherent. The whole system is now endemic with this constant under-utilisation of our human and material resources. Now either the government is consciously going to raise this level of resource utilisation, or it is basically in default of its responsibilities as a government, a willful default if it cannot do that.

So built-in to each planning exercise is a normative notion that a government has to do better. If in fact the government is performing at a sub-optimal level, and it is to get itself up to a minimum level of competence, there is an enormous amount of domestic resources that stand to be generated. Now if in fact you are a country with a gross domestic saving of below one per cent, and God alone knows how many countries in Africa and elsewhere are generating higher rates of domestic savings, and you cannot graduate upto that particular point, then you really are in default as a nation. And successive governments have been delinquent in their obligation towards their countrymen.

In successive plans, the area of dependence and the degree of dependence has gone completely contrary to what foreign aid is all about.

Foreign aid from the days when you first read your first textbooks, was an interim intervention to cover the savings and foreign exchange gap of extremely backward and structurally deformed countries, and as you graduated upwards, as you realised structural change, you cover those gaps. Now if your position approximates to a war-devastated economy, which is where we began our life with all the dislocation caused by the withdrawal of the Pakistanis, and your position in terms of handling of your own affairs is worse now than it was 20 years ago, then where are you?

DS: Syeeduzzaman raised the point of priorities for this new government. What in your opinion should be the re-prioritisation of this new government?

SZ: As Rehman rightly said, the hands of the new government are virtually tied in terms of the possibilities of re-allocation of available resources. In the short-term, the question of financial stability is very important because we don't want to get into a situation of rapidly rising rate of inflation. Secondly, the government should declare its commitment or otherwise to a medium-term framework for macro-economic management, which is basically coming back to Rehman's point of how to raise, domestic savings and domestic investment.

DS: Does that fit in with government thinking of cutting expenditure by cutting the upazila administration, district administration, and other areas, which are political decisions?

SZ: There are so many areas where you could reduce of trim expenditure. You have mentioned two areas, but there are other areas.

DS: Could you kindly mention which other areas they could be?

SZ: Well, then you have to go back to where the expenditure has gone up in the past 10 years. Foremost is the public sector wages which have gone up very fast; secondly, this question of debt servicing, which has also gone up fast; thirdly, you have these transfer payments for non-productive purposes like grants to educational institutions which have been given on political considerations without realising any effective returns and finally the security-related areas. Across the board, different

government instruments. These are the areas where there is considerable scope for rationalising expenditure.

DS: Would you also agree that there is wastage in the private sector in the form of bad debts which are now coming out in the papers, the long list? Would that be also a wastage of national resources?

SZ: Certainly that is a wastage of national resources, but not necessarily of public resources, since large part of the debt comes from private savers and depositors and so on.

RS: You see a large part of what constitutes private investment is in fact public investment, in the sense that it is financed from public lending institutions. The notion that public enterprises should be accountable for the use of these resources, but people who have borrowed these resources from DFIs should not, is obviously not acceptable because these are resources which have largely been given by donors. And they have a high opportunity cost in the sense that you could have used these same resources for lending to small industries, or for developing local infrastructure or for poverty alleviation. So they have a cost. So now if I have invested public resources, I must account for them. I must find out how each and every enterprise created by such an investment is coming along. Is it generating significant output, is it repaying its loans so that other borrowers can come in, is it generating re-investable surpluses, or is it operating at below one-third of its capacity and all its loans are in default?

The worst danger is that the government does not know what is happening to the resources it has invested in these enterprises. It does not know what is happening to its disinvested enterprises.

DS: Were these willful lapses or managerial problems?

RS: I would say it is just the way it has evolved. I'd say that 70 per cent of time and energy is spent in negotiating to bring aided projects to fruition; twenty per cent of time is spent on implementation of these projects; and 10 per cent is spent in actually managing the projects. What is happening there is not that the government is not giving attention to all the wrong areas. Like, persuading corporations to employ people that are not needed; denying them the freedom to adjust their prices to cost; and then imposing wage policies without consulting the management, or considering the ability of a particular enterprise.

Before we go into the Paris Aid Club topic, another thing about the issue of prioritisation. Actually I don't know what prioritisation is going to mean, because priorities for the next Annual Development Budget (ADB) is already determined. They are determined by the spill-over projects, and by the number of projects which donors have evaluated, and have either rejected or actually signed. Within the current resource envelope, which has been identified for the forthcoming ADB, I'd reckon that priorities are zero. Unless the government can make significant effort — and I'm not quite sure what effort they are going to make — to generate a whole shelf of new resources, either by cancelling large number of spill-over projects, or by extraction fat from existing carry-over projects, or by generating new resources through revenue, there are no priorities. Priorities are 100 per cent donor-determined.

DS: What can the government of this country extract from the Paris meeting? Has the perspective of the Paris meeting completely changed?

SZ: I should not say that the perspective has changed, certainly there is an additional dimension in the deliberations of the meeting because of this cyclone disaster. Naturally the government will ask the meeting for additional support to overcome the damage done, including rehabilitation assistance. As far as the donors are concerned, they will be looking for commitment from the new government to the policy reforms which have been agreed to by the previous government over the past several years. They will look for commitment to pursue those reforms as the basic determinant of the regular flow of external capital and aid for the rest of the FFYP. The areas are



Stimulating, candid and provocative: Rehman Sobhan (left) with M Syeeduzzaman

— Photo: Mohsin

well-known, like macro-economic reforms, structural reforms, tax reforms financial sector reforms, tariff reforms, budget and expenditure control, public enterprises reforms.

RS: The problem with the Paris aid meeting is that the government has nothing to do with it. It has never had anything to do with the consortium meeting. The agenda for the meeting is set by the donors, and the working document is the Country Economic Memorandum prepared by the World Bank. The government's own statement that goes there is basically a document designed to show how they are attempting to honour their obligations to the donors as spelt out in the CEM. Now if the government is to demonstrate its credibility, the only framework in which to do that, is by its willingness to carry out the policy agenda which has in fact been laid out by the donors.

And what I'd have liked to have seen an elected government do is to expose this CEM to a very rigorous evaluation. The first time an elected government is going to Paris, it should review the whole policy format which has been spelt out by the donors. An internal evaluation, and drawing upon all the professional resources that are available within the country, I find there are quite a number of policy prescriptions which are exceedingly uncomfortable, and these need to be very carefully assessed and analysed. The government should then determine, in relation to its own priorities and managerial capabilities; what in fact should be the policy framework. The ideal framework for going to the consortium meeting should be that there should be only one document on the table. And it should be the priorities and policies of the government of Bangladesh. And donors should then be invited to come forward and to comment on this and critique it, and to have a dialogue.

SZ: Rehman is right that the net output of the Paris meeting in many occasions remains questionable. The people who attend the meetings on behalf of the donors do not come from policy-making levels. They come mostly from aid agencies, so there is nothing new they can say at these meetings except convey the views of the donor governments which have already been conveyed earlier to the government in Dhaka. So what they basically look for is what kind of response the government is giving to the views of the donors.

Secondly, the sum total of the pledges that come out in the meeting is not different from what you would achieve on the basis of bilateral negotiations. That is in the nature of things, because the head of a donor delegation in Paris would not make pledges or commitments which are at variance with budgets his authorities have already prepared in advance.

Thirdly, the process through which the World Bank produces its document is quite long. It's a process that takes about six to seven months. They come here in September-October, and give the government a first draft; then they come again and give the government a second draft; finally, they have widespread interaction with government ministries, including a final wrap-up meeting with the Planning Commission and the External Relations Division before they finalise their grey cover document. So the gov-

ernment has considerable amount of opportunity and time to react to those documents and to tell the World Bank economic mission what they feel. Unfortunately we have not always made the best use these six or seven months.

DS: One question to you Rehman Sobhan, what are the uncomfortable prescriptions given by the World Bank and the donors?

RS: Well, at a very fundamental level, I do not agree with their policy for the wholesale import liberalisation of the economy. I think there is a considerable body of professional opinion in the country, not to mention internationally, which would take the view that imposing this degree of import liberalisation on a country where only 10 per cent of its GDP comes from manufacture has no historical precedence and was probably responsible for the structural stagnation of the economy. If you want to move towards liberalisation you only do so when you have built a substantial industrial base.

I think the real problem which the World Bank and the International Monetary Fund (IMF) have not answered is that, if they have a ranking list of a country which has conformed to policy prescriptions as they have spelt out in their structural adjustment and EFAS programme, Bangladesh would probably be in the First Division. How come then we have lived through a decade of stagnation in the economy? Someone has to answer this. I don't say my critique of import liberalisation may be the answer, but what I would say is that the model itself needs a very rigorous scrutiny, because it is a failed model.

Then again, when you liberalise imports, you have to determine the sequence, the time-frame and also coordination with your neighbouring countries. When you have long, porous boundaries with another country, you have to keep in mind what kind of policies or import regimes your neighbouring countries are following. Unless there is close coordination between the two, there may be distortion in the whole structure, or your imports may not be used for production and consumption within your own borders.

DS: But what is the case for not having a list of banned items?

SZ: What is case for having a banned list? Let me put the question back to you.

DS: To give protection to local industry...

SZ: Yes, you permit the import but put a high tariff and then you give protection.

DS: But if you put a high tariff, your export prices will be higher....

SZ: Export price will get all the drawback facilities. If you import something for producing an exportable item, you get back all the duties you have paid for the import.

RS: If I make a point over here. Take a look at the successful industrialising countries like Brazil, India and South Korea. The World Bank has built a mythology around Korea which bears no relation to Korean history, that the Koreans were per excellence import liberalisers and that is how they grew. Nothing of the sort! In fact the Koreans ran one of the most restricted,

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protected regimes for their domestic capacity. What they did was they were exceedingly liberal in promoting exports. So they were much ahead of other countries in export promotion.

Now the World Bank model would not only have you remove quantitative restrictions, it actually wants you to reduce tariffs. In fact they have permitted us to bring our average rate of tariffs down to about 75 per cent.

Now why do you think faced that crisis last year when there was a sudden upsurge of imports? It was there because the last budget had gone through a significant import liberalisation episode and, import liberalisation means that within the tariff framework you have, you import whatever you want to import. So you import what you want to in terms of where the margins actually exist: the notion that a country at as backward a state as we are, should carry out a liberalising episode without creating an industrial base is unthinkable.

DS: Will you sum up in this way that donors' policy aims at keeping us perennially dependent on foreign aid?

RS: Well, I wouldn't say that is the donors' fault! No good blaming the donors. If you are incompetent and malevolent in your governance, I mean if in

fact you can neither generate resources nor you can develop your policy agenda, nor you can manage your economy, and at the same time you will go and prostrate yourself at the feet of donors in order to bail you out of both your short and long term problems, naturally they are going to come and say this: that you are a bunch of incompetent thieves and liars who make promises which you cannot fulfil, so I am going to catch you and put a ring round your nose, and I'm going to tie a rope to it and you will go where I take you because you are too backward and incompetent to do actually anything yourself. That is what we have been reduced to. This is our failure.

DS: Suppose you are back as a minister, or suppose you are back as a member of the Planning Commission, what guidelines would you like to implement?

SZ: I think there has been a lot of partisan discussion of the planning process, and the success or failures of the first plan, second plan, third plan, and now the fourth plan. I think there is considerable room for objective discussion about what went right and what went wrong with these plans.

If you look at the first plan of 1973-78, many people forget that the plan was formulated at a time when the international environment was completely hostile. As a new war-devastated country, Bangladesh was grappling with problems of nation-building, building of institutions. And at the same time, it had to face the same problems which industrial countries were finding difficult to cope with. The first plan was not free from what I said earlier about exaggeration of domestic capacity. So we had a plan whose targets we could not reach in terms of financial resources. Obviously the expenditure was much lower, physical achievements were lower than the targets and we had to re-orient the plan towards the second part of the plan.

Again the second five year plan of 1980-85 was ambitious in terms of resources. The second plan had some basic policy changes from the first plan. The government's policy was to encourage the private sector, raising the limits of private investment, giving more authority to financial institutions, to finance private investment. The growth rate of the second plan was comparatively better because the infrastructure was by and large restored, financial services were put on an even keel. In the later half of the second plan the government got stuck up with certain policy reforms. When Bangladesh Petroleum Corporation found itself 280 crore taka in debt due to after-effects of the second oil crisis, of 79-80, the government entered into an extended fund facility (EFF) agreement with the IMF which envisaged certain policy changes, fiscal policy, monetary policy, industrial policy. The government could not implement those policies, so the EFF was terminated. This inability to continue with policy reforms characterised the termination of the second plan.

The third five year plan of 1985-90 coincided with a global recession. Domestically it coincided with major policy changes like disinvestment of publicly-owned industries, and continuing with policies spelt out in the second plan to give private sector the opportunity to set up commercial banks and insurance companies. But then certain micro-economic decisions like disinvestment were not followed up with logical macro-economic decisions and the government's commitment to those decisions. That is why you find many distortions in the actual imple-

mentation of the policies of the third plan.

What the government did was to give cheap credit and there was very high temptation to divert and misuse. And thirdly, if you look at the government's wages policy and labour policy, that really played havoc with the private sector. The other problem was that the government was giving raises in public servants compensation system, and then imposing those wage increases on the private sector.

And lastly, the extent of corruption had spread in the economy. If you wanted to set up an industry, there were obstacles at every stage, and you had to grease people's palms in order to keep them happy.

RS: The First Five-Year Plan was prepared in 10 months. In fact, the decision to prepare the First Plan was taken sometime in August, 1972. The first draft was prepared by July, 1973 although it was not formally approved until November of that year. And this Plan was prepared by whatever professional expertise we had. This was an indigenously prepared Plan, and there were many weaknesses and inadequacies, as there would be since we did not know what a planning institution was until the beginning of 1972. It has to be judged within those particular constraints.

Now what you have to recognise is that resources are still constant, and if you want a system in which you can use your resources efficiently, then you must get your priorities right and you have to considerably improve your macro-economic management of the economy.

If this is going to need some centralised planning at a policy-making agency within the government, then the main thing is that the Planning Commission is the most suitable entity to perform the job. But if it has to do it, then its status must be improved and its professionalisation will be greatly enhanced.

DS: Suppose you are back as a minister, or suppose you are back as a member of the Planning Commission, what guidelines would you like to implement?

RS: What we need is to introduce a degree of objectivity and transparency into the decision-making process and demonstrate that you take decisions which are derived from assessments of problems rather than as part of someone's private agenda. This is absolutely critical.

What has happened in society now is that every decision has become a unique decision, unique to the person or situation within which it is made. No system of administration, let alone an economic management one, can function under these circumstances. What you still have are paper exercises, but a state functional anarchy really guiding the functioning of management of the economy.

The points about the need to generate resources indigenously, and about recapturing the high ground by setting your own priorities and policies, have already been made earlier. They are crucial, because a huge congealed development capability lies embalmbed within the public sector, not to mention the private sector. And beyond that you have to find imaginative, efficient and productive ways to generate revenues.

If you can't do that, then you will be faced with the same set of crises that you have faced in the '80s and 1990. The problem is systemic, and unless you can arrest the systemic nature of the problem, you are going to end up in the 21st century having precisely the same discussion.

SZ: I would say the government should constitute reforms which are linked with medium-term policy programmes for domestic savings and raising public investment.

I would like to see tax reforms, tariff reforms, budget reforms. These entail hardship, hostility and discipline. You should exhibit better discipline, better sacrifice and better management.

The conversation, the second in the series of The Daily Star, was conducted by S. M. Ali who was assisted by Moazzem Hossain, Shahiduzzaman Khan, Sabir Mustafa, Wahidul Haq, Reazuddin Ahmed and Mahfuz Anam. The conversation took place last Monday.