

BEA Tenth Biennial Conference

Market Economy and Economic Development

THE participants of the Conference appreciated the choice of the central theme of the conference. The first round of debate centred around the conceptual issues relating to market oriented economic development.

It was maintained that market economy is usually preferred because of its potential contributions to welfare mainly through efficiency in resource allocation.

A broad consensus has emerged among the government, academics and politicians on the need for adjusting the national economy to competitive global conditions by responding to market forces. However, it was pointed out that market economy can achieve its goals through competition when the market is not dominated by few producers and profits are near normal. It was also argued that competitiveness is a phenomenon of economies where all parties involved abide by the 'rules of the game'. The reform, acknowledging the socio-economic conditions of Bangladesh it is highly desirable that the government should play an effective and enlightened guiding role in the economy.

It was opined that the economic role of the government needs to be reviewed particularly in terms of the size of public investment, rationalization of non-development public expenditure, allocations to real economic sectors and expanding targeted safety nets.

Implications of these issues were considered and debated in the context of the ongoing reform measures, that is, the structural adjustment programmes (SAP).

The Reform Package

Bangladesh has been exposed for nearly a decade to Structural Adjustment Programmes (SAP) as conceived by the WB and the IMF which includes expanding the role of private enterprises, reducing subsidies on inputs, measures for adjusting exchange rates, reducing inflationary pressures through massive monetary reforms and so on. It was strongly felt by the Conference that this reform package has not been designed with proper input from the Bangladesh side, rather has been thrust upon the nation. It seems that government is also going along with such a reform programme in order to attract foreign aid.

The SAP emphasizes institutional changes as the substitution of the public sector by greater economic activity by the private sector, the greater reliance on market forces to guide production and allocative decisions and attempt to expose the economy to greater openness in the way of import

liberalization and export promotion. However, many argued that there is no such empirical evidence in Bangladesh that confirms the supposedly higher efficiency of these reforms towards a market economy. Moreover, there is no single instance in the history where pursuing across the board liberalization has led to industrialization in a country. Rather the consensus was:

(a) adjustment policies should be integrated with overall policies for development.

(b) SAP must take account of contextual factors like historical background and other factors that are unique to our country.

(c) The SAP has failed to accommodate interests of the vulnerable groups. The unorganized and weaker sections of the labour force (as well as

A Star Report

vestment finance needs are modest and technology assimilation is easy. The garment sector had been forwarded as an example. Deep concern was expressed for the reluctance of foreign investors despite the facilities given to them by the government of Bangladesh and the availability of cheap labour.

It was unanimously agreed upon that they shy away from investing because of the deteriorating law and order conditions and the political instability. Therefore, the government should not only pursue liberal policies but should also have firm political commitment to improve the non-economic variables as well.

The present entrepreneurs are first generation entrepreneurs with little experience. Extensive training programmes ensure better performance.

improved infrastructural services and above all ensure enforcement of a set of proper rules and regulations so that both accumulation and wage become contingent upon entrepreneurial performance and labour productivity. In manipulating the exchange rate, besides proper assumptions regarding the elasticity conditions government should tune its expenditure pattern which affects the exchange rate. The exchange rate policy must be a part of and consistent with the larger policy package so that the final objective is achieved.

The service sector has great contributions in terms of linkages with other sectors. But at the same time it is characterized by low skills and lack of linkages with the agricultural and manufacturing processing

needed to be strengthened and expanded. The public food-grain distribution system, food for work, vulnerable group development, Pali rationing channel and marketing operations directly targeting the rural poor and vulnerable groups need to be fine-tuned. However, at a different plane, the final answer to income and employment in dynamization of the productive sectors of the economy is through enhancement of internal rates of return. The need to give greater attention to human resource development in order to secure sustainable development was taken note of. Allocation in social infrastructure building should be increased to a considerable amount. More poor sensitive restructuring of public expenditure is necessary in this regard. Human development effort should aim at skill development and the quality of social sector investment should be geared to improve the quality of manpower.

Need for a Dialogue

The Conference reckoned that it is necessary to translate the general indications on reform measures into specific propositions. The success of these propositions lie in detailed research and an ongoing public dialogue involving the government, political oppositions, business community, NGOs, professionals and more importantly the producing classes including farmers and labourers. As an alternative to dictating agenda, it was maintained that, we should have an effective and powerful set of policy programme based on extensive political support emerging from general mass. A programme evolved through such a process is expected to ensure entitlement and empowerment of the productive and efficient classes working in agriculture, industry or service sector. It was observed that these classes are least import dependent, they generate higher saving and undertake greater investment, but are currently denied of effective purchasing power.

It was stressed that a consensus on development issues should be reached through a participatory mode which will allow meaningful accommodation of different approaches and alternative means to achieve the development goals. There should be continuity, transparency and consistency in formulating and applying any development package. The Conference agreed that the above remains to be the current professional responsibility and academic challenge for the economists, politicians and for those who are concerned with economic development of Bangladesh.

The Tenth Biennial Conference of Bangladesh Economic Association (BEA) was held in Dhaka from 8th to 10th May, 1993. The main theme of the conference was 'Market Economy and Economic Development'. The Honorable Prime Minister of the Government of the People's Republic of Bangladesh Begum Khaleda Zia inaugurated the Conference as Chief Guest. The Finance Minister Mr M Saifur Rahman attended the Inaugural Session as Special Guest.

A total of 36 papers along with 6 Memorial Lectures were presented during the six academic sessions of the Conference. The wrap-up session was devoted to a panel discussion where the major economic issues, as captured by the participants, were reviewed. The Conference was attended by a large body of experts, economists and development practitioners involved in teaching, research and policy making. Representatives of different international agencies also participated in the Conference.

those in the public sector) may fall victim to the current reform measure.

It was considered by the Conference that there is a need to evolve an alternative reform package which is based on felt-need, driven by local resource mobilization and guided by national expertise.

Sectoral Issues

The Conference felt that agricultural surplus should be the primary source of funds for industrialization. The internal rates of return could be raised by greater adoption of modern varieties of seeds and other agrotechnologies which requires higher investments in land. Therefore, it was suggested that both large and small farmers should have equal access to credit markets on easy terms. Measures to develop village based agro-industries should be geared up in order to withdraw surplus labour from land and increase productivity.

Buffer stocks needs to be maintained for avoiding seasonal price fluctuations and providing proper price incentives to the farmers.

Private entrepreneurship has great promise in areas where markets are secure, in-

stead of large scale industries it has been suggested that small scale industries with greater backward and forward linkages should be established to ensure optimum utilization of resources. Sparks of dynamism is coming from the informal sectors. These micro enterprises, for example, those of Dholat Khal and the like in both agricultural and manufacturing sectors must be capitalized and nurtured. The privatization process should emphasize deregulation, reform of tariff and taxes and give incentives which could encourage new investments. The public sector should be free from political interferences. In order to ensure competitiveness in the public sector it should be free to enjoy commercial autonomy and be exposed to the market forces.

There should be a policy of rewarding the better performers and punishing the non-performers in order to encourage entrepreneurship in the public sector.

For stimulating export and developing efficient import substituting industries government can be advised to first ensure financial discipline, stable law and order situation,

sector. The main challenge to policy makers regarding improving the service sector and making it competitive is to provide proper incentives.

Policies for Disadvantaged Groups

The following recommendations were made for mainstreaming the disadvantaged groups in the development process. It was emphasized that, in the backdrop of the need to reexamine the theory of liberalization, it is necessary to develop a workable model to programme the outcomes of the reform policies on vulnerable sections of the society, generate macroeconomic evidence to feed the model which can integrate socio-political as well as administrative variables into analysis. A policy of 'growth with distribution' has to be followed to ensure egalitarian distribution of wealth that is generated through various development measures and growth processes.

Special poverty alleviation programmes for the extreme poor, improved targeted programmes for the moderately poor should continue to get priorities from policy makers. As a short run measure, tar-

Bangladesh: Output and Employment Effects of Macroeconomic Reforms in the 1980s

by Prof M Ali Rashid

LET us take a look at the implementation of some policy reforms, as reflected in movements of some key policy variables. There was a modest reduction in the fiscal deficit from 9 per cent of GDP in 1980/81 to an annual average of 7.3 per cent of GDP during 1987/90. The reduction in fiscal deficit was achieved through a contraction in Government expenditure from 18.4 per cent of GDP in 1975/76-1980/81. The high growth rate of 8 per cent per annum of the construction sector during the 1980s compensated somewhat for the dismal growth in agriculture and industry. Little structural change had been achieved in the economy during the 1980s. The share of manufacturing output in GDP had stagnated at around 10 per cent throughout the 1980s.

The rate of increased of

1988/89 was as low as 1.9 per cent per annum. Real industrial growth occurred at 4.9 per cent per annum in the 1980s. The average annual growth rate of real manufacturing output during this period was 2.9 per cent. In contrast, the average annual growth rate of real industrial output was 5.8 per cent during the period 1975/76-1980/81. The high growth rate of 8 per cent per annum of the construction sector during the 1980s compensated somewhat for the dismal growth in agriculture and industry. Little structural change had been achieved in the economy during the 1980s. The share of manufacturing output in GDP had stagnated at around 10 per cent throughout the 1980s.

Throughout the 1980s export growth in real terms has

GDP ratio in the structural adjustment policy package. Although real interest rates have been raised, this failed to have any significant effect on private savings.

The bulk of employment generation has occurred in the informal sector; the share of the informal sector in total employment has increased from 82 per cent in 1983/84 to 90 per cent in 1989/90. The share of the formal sector has correspondingly declined from 18 per cent to about 10 per cent during the same period. About 74 per cent of those employed in the informal sector are classified as either 'unpaid family workers' or 'self-employed'. Changes in the formal-informal sectoral distribution of employment may be interpreted to mean that growth of employment measured in man-hours may have declined between 1983/84 and 1989/90, since the man-hours lost through the con-

The foregoing analysis seems to indicate a deceleration in employment growth in the 1980s. Growth in public sector manufacturing declined sharply and was in fact negative during the period 1980/81-1986/87. There has however been significant employment growth in the private manufacturing sector in the 1980s. But the decline in public sector employment more than offset the increase in private sector employment, and consequently the growth rate of employment in the formal manufacturing sector as a whole declined in the 1980s.

bank credit fell from 36.9 per cent in 1980/81 to an average annual rate of 16.5 during 1981-89. The credit squeeze has been dramatic for the public sector, declining from an average annual rate of growth of over 45 per cent in 1980/81 to an average annual rate of less than 2 per cent between 1986/87 and 1989/90. Nominal interest rates have been managed in such a way that the real interest rate on short-term deposits rose from— 4.5 per cent in 1980/81 to 2.6 per cent in 1989/90; during this period, the long-term lending rate increased from 1.5 per cent to 5.5 per cent. The Taka has been devalued by 98 per cent in nominal terms during the decade of the 1980s. The extent of real devaluation has however been very modest; in fact, the real exchange rate appreciated in 1989/90.

When we consider population growth of 2.1 per cent per annum of this period, we get an indication of the poor growth that occurred in real per capita income during the 1980s. In contrast, real GDP increased at 7.1 per cent per annum during 1972/73-1974/75 and at 5.1 per cent between 1974/75 and 1980/81.

Growth achieved in the productive sectors has been even more disheartening. Thus, the average annual growth rate of real agricultural output between 1980/81 and

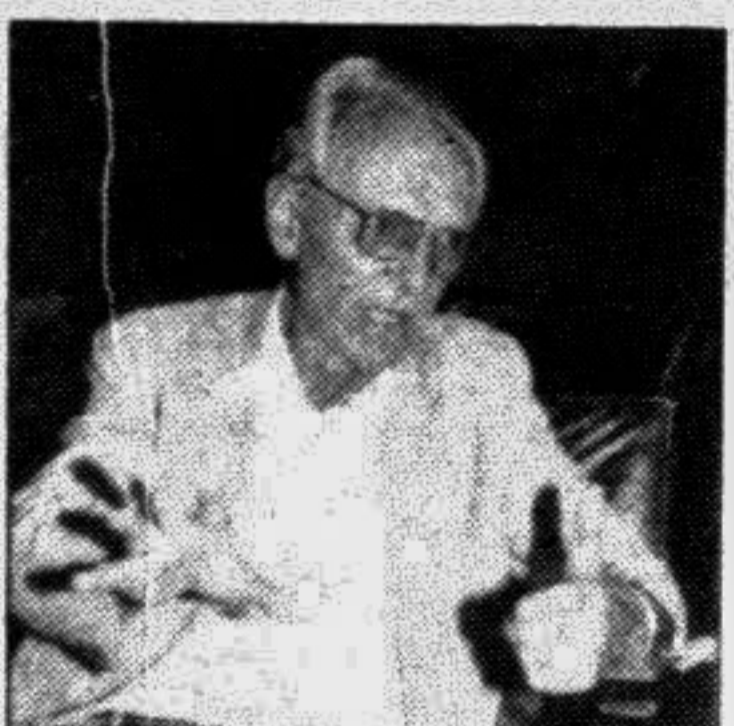
occurred at 7 per cent per annum. Export growth has been accompanied by export diversification; there has been an increase in the share of manufactured exports in total exports (77 per cent in 1989/90) and a decline in the share of primary exports (23 per cent in 1989/90). It is important to note that the high growth rate of manufactured exports has been dominated by the phenomenal growth of readymade garments. The readymade garments industry has however failed to play the role of the leading sector in industrial development due to the limited backward linkage generated by it.

The decline in growth of GDP in the 1980s has been caused by a fall in the (gross) investment rate from 15.9 per cent of GDP in 1980/81 to 11 per cent in 1989/90. Both private and public investment rates have declined. The fall in public investment has been associated with the contraction of the fiscal deficit, the latter being achieved primarily by cutting down public development expenditures. The domestic savings rate has on average been 1.9 per cent during the 1980s, which is one of the lowest savings rates in the world. The tax revenue — GDP ratio has stagnated at around 7.5 per cent during this period. It is interesting to note that sufficient attention has not been paid to raise the tax-

traction of full-time paid employment in the formal sector could have more than offset the increase in man-hour of employment in the informal sector in the form of increases in the number of mostly under-employed 'unpaid family workers' and 'self-employed'.

The foregoing analysis seems to indicate a deceleration in employment growth in the 1980s. Growth in public sector manufacturing declined sharply and was in fact negative during the period 1980/81-1986/87. There has however been significant employment growth in the private manufacturing sector in the 1980s. But the decline in public sector employment more than offset the increase in private sector employment, and consequently the growth rate of employment in the formal manufacturing sector as a whole declined in the 1980s. This has been accompanied by a declining trend in the growth rate of employment in the informal manufacturing sector. The net result has been a slight fall in the growth rate of total employment in the country during the period 1981/82-1985/86. It is hazardous to pass any judgement regarding the growth rate of total employment during 1986/87-1989/90 in view of the fact that the coverage of the Labour Force Survey during this period has been considerably increased compared to previous years.

"WHEN as bishop, I was attacked and called *anjoo do mau* (demon) and other things, I felt a painful incomprehension. But, at the same time, I thought of how much more painful it must be for all the poor misunderstood people who do not receive as many signs of solidarity as I did. I hope that these our brothers, lack neither solidarity, nor justice, nor evangelical charity", said Alfonso F Gregory, President of Caritas Internationalis and Bishop of Imperatriz, Brazil in a letter addressed to all its affiliated organisations.



demn but also through our power, of Caritas we should try to help these people to develop their land which the land owners have occupied. And this open position of mine gave a very strong impression and the land-owners and they have staged demonstrations against me.

DS: Now let us take NGO affairs. There was allegation against NGOs that the people of NGOs with their expatriate specialists made some visits to

Born on February 6, 1930 and educated from Gregorinah University, Rome in Theology and in Social Science from the University of Louvain, Belgium, Bishop Gregory recently visited Caritas Bangladesh. The Daily Star's representative had a talk with him at Caritas Bangladesh headquarters. The

The popularity of Non Government Organisations (NGOs) stems from the lack of success of government to respond to the needs of the rural poor. Even a casual look at the literature suggests that NGOs are asserting themselves as development alternative. The general praise for NGOs in Bangladesh has, however, not been based on analytical frameworks or detailed empirical evidence.

following is an excerpt of the interview:

The Daily Star (DS): Could you please tell us about which you stood alongside the landless against landlords.

Alfonso F Gregory (Gregory): The area where I am working now, land owner have gra.sped 5000 to 10,000 hectares. Surely this is something wrong and the people did know that a Bishop cannot do anything like invasion and occupation of lands. When the first occupation took place, as the bishop I could not sit idle. The people whose lands were occupied were the poor people. Secondly, the land must not be occupied without consent of the people.

As a Bishop not only I con-

rural areas. During such visits specialists do not get opportunity to meet real poor people. They talk to men rather than women. They do not hear people talk about poverty because of politeness. They speak more than they listen. What is your comment?

Gregory: That is I think a very important question. Working in the social areas as I have done during the past thirty years in Brazil, it is so important to go deeper and to create a situation so that people could speak freely.

They reticently you can have very good abstract plans. But that is not the question. The question is 'how to ensure participation — the involvement of the people in the programme.

The Experts must Learn from People

Interviewed by Rashed Mahmud Titumir

That is from the experiences you gain when you work in the social area. The technicians must help the people with their knowledge so that people in this movement can organize themselves and resolve their own problems.

DS: Let us have an example of Bangladesh. Caritas has been active in Mukhedpur thana for over a decade and has invested, in addition to relief and credit, Tk 3500 per group

in administrative cost. Yet in spite of this, it is learnt that less than 5 per cent of the target group members have been mobilised. Now what do you say?

Gregory: About this concrete project, I do not have detailed information.

DS: Caritas takes pride in the target group mobilizations for liberating group solidarity.

According to a study, about three-fourths have joined them expecting direct economic benefits. But in the Caritas document it is claimed that the poor persons should not simply be recipients of the Caritas charity and services but they should become the protagonists in their own development. The reality, however, suggests the contrary.

Gregory: My comment is that the economic aspect in social work with poor people surely is important. It depends how you will manage this economic aspect. The idea is that the people are waiting and at the other side the Caritas should be the donor. That is not the philosophy of Caritas. The philosophy of Caritas is to put the people not in the economic aspect but to help them to become human beings.



DS: But that is happening Gregory: That is wrong. We have come to see what we can do. Also we have our ideas, values. We can do something. It is important to do what we can and money is afterwards. It comes as a complement to what they are doing.

DS: In most cases, what we have seen, the NGO workers in their group meetings, are acting like teachers and the members are behaving like student. Don't you agree?

Gregory: In my sense, that

Where are the Hungry Likely to be Found?

WELL over half the undernourished people in the world live in the Asian region, but though Africa has a smaller population, the proportion of its population in hunger is much higher. Moreover, in particular drought-ridden and war-torn areas of Africa, the proportion of serious undernutrition is often the highest in the world.

A vast majority of the world's poor and hungry live in rural areas: an estimated 60% of the undernourished in Latin America, 70% of those in the Near East and 80-90% of those in Asia and Africa, according to the International Food Policy Research Institute. These rural poor tend to be the families of landless wage labourers, sharecroppers, tenant farmers, herdsmen and fishermen.

Regional distribution of hunger

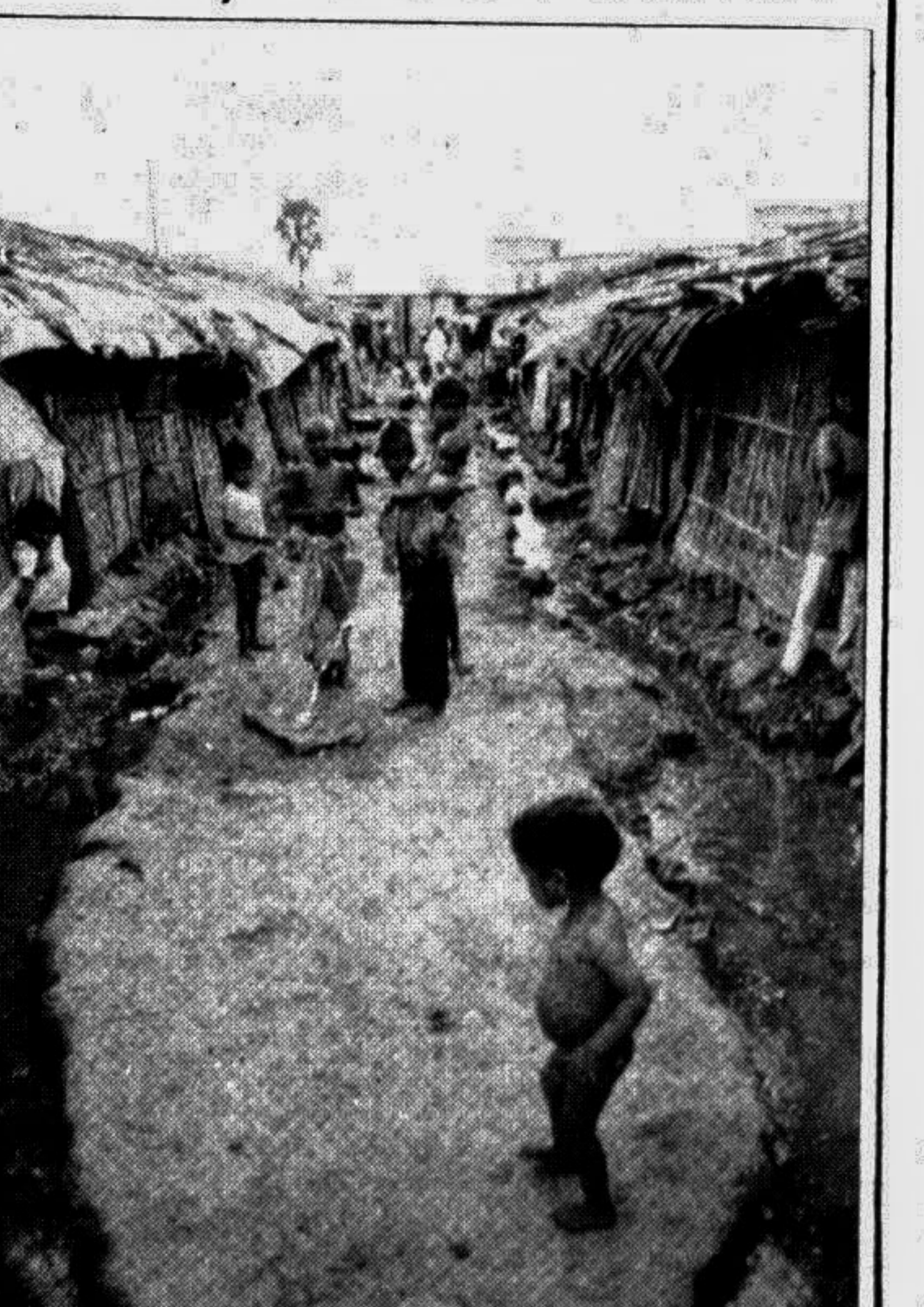
Region	Percent of the world's undernourished people
Asia and the Pacific	57
Africa	27
Latin America and the Caribbean	11
Near East	55
TOTAL	100

Source: Food and Agriculture Organization of the United Nations.

It may seem paradoxical that a high proportion of those who live in the countryside and grow food are undernourished. But this is where most of the poverty can be found. Moreover, rural areas are usually the hardest to reach with emergency food and other supplies.

In many rural areas, undernutrition is especially common in the period just before harvest. This is the time when the food stocks of a family or farm community are often exhausted and when the work demands for harvesting a new crop are the highest. Since the amount of work people are capable of depends on their calorie intake, the diet of many peasants is simply not adequate to provide the energy needed for a full day's work in the fields. Rural women, who are active in food production as well as in taking care of their families, are even more likely to suffer from undernutrition.

As a result of problems like these, the numbers of rural people migrating to crowded shanty towns and slums adjoining large cities throughout the Third World are swelling faster than ever before. These areas are characterized by poverty, unhealthy living conditions, high unemployment and, often, social upheaval. Since at least two-thirds of the population increases in developing countries are taking place in towns and cities, this volatile situation is likely to continue.



Poor water and sanitary facilities in this shanty town in Bangladesh, compound the health risks related to hunger.

Caritas is an international Christian group emphasising both relief and socio-economic development with broad geographical coverage at home and abroad. Therefore, The Daily Star intends to talk to the visiting International President of Caritas to know about the NGO model in terms of its stated goals and objectives.

is very bad. Because I think in the dialogue the technician and the experts must learn from the people and the people from the experts. The experts do not have enough knowledge about the culture in which the people put priority. We cannot fix the priority from outside. Only the people can make priority. All these things the NGO workers can learn only by having dialogues with the people.

DS: One typical NGO comment is: "The rich exploit, the poor must unite, 'unity is strength', 'Women are equal to men' etc. But these are merely responses learnt by repetition without analysis or structural discussions of their validity. These responses are often held to indicate NGOs' success in popular participation. But without specific proofs of ac-

these movements. Without national movements it is not possible to change society — one that is just and healthy.

DS: But it is observed that NGO people, who are working at the field level have lack of interests in these movements.

Gregory: I do not know the situation here. But in my land the NGOs have their own projects but they are also present in popular movements.

DS: What is your comment on the statement — "The rich are rich, because God made them so?"

Gregory: That is not true. The rich are rich because they have taken too much from the others. That is the reason. In Christian conception, God has given a bountiful world for everybody. Wealth is for everybody, not for somebody.

DS: Thank you for sharing with us your views.