

Interview with Harvard's Professor of Economics

Neither Government nor Market alone Functions Effectively

by Rashed Mahmud Titumir

ONLY 29 years old, Dr Jonathan Morduch, an Assistant Professor of Economics at Harvard University in Cambridge, Massachusetts, the oldest and most distinguished university in America, recently visited Bangladesh to present a paper at a seminar.

Soon after completing graduation from London School of Economics and Brown University, he worked for the Agricultural and Rural Development Department of the World Bank in Washington, DC, where he spent a year helping to design new approaches to analysing pricing policy and tax reform.

Moving on to Harvard University, Morduch received his Masters and Ph.D in Economics in 1991. Completing doctoral dissertation, he was asked to join the faculty, where he now teaches Ph.D-level courses on development economics.

Economic issues in Asia have long been of interest to Professor Morduch, beginning with his doctoral-dissertation on how farmers cope with risk in South Indian villages. His current research involves understanding the role of gender inequality on economic decisions in Bangladesh rethinking approaches to disaster management and insurance in China. He has also worked on price reform in Hungary and Russia and assisted in designing a poverty alleviation strategy for Indonesia.

His work is distinguished by an attempt to push the boundaries of economics to encompass areas not traditionally considered within the definition of 'Economics'. This is exemplified by his recent contributions to the studies on the 'theory of government decentralisation'.

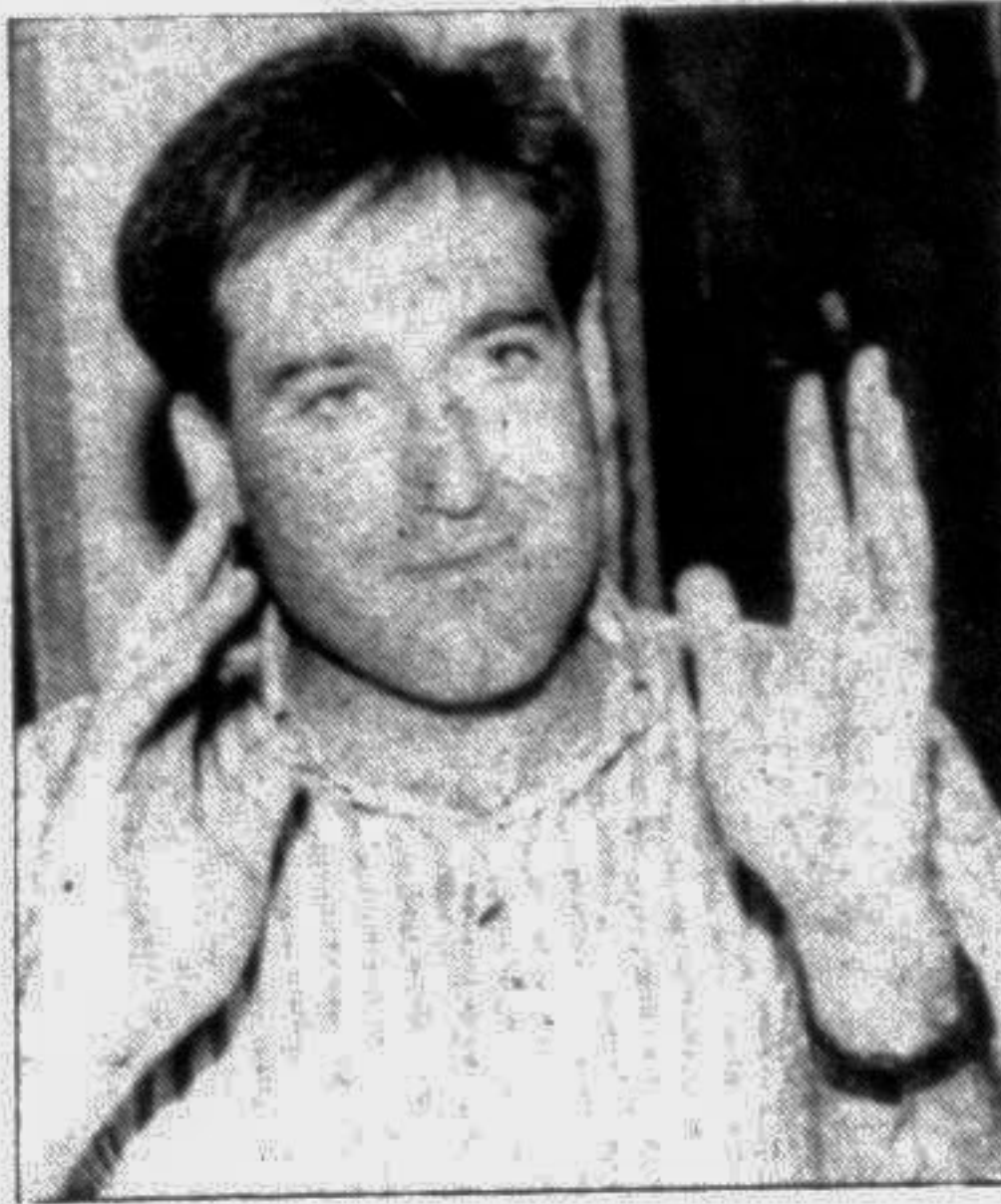
The Daily Star arranged to talk to Professor Morduch and the excerpts of the conversation are given below:

The Daily Star (DS): You are a professor of economics at Harvard University, which is one of the most prominent departments of economics in the world. What are the main views represented there?

Jonathan Morduch (JM): One of the great strengths of the Economics Department is its diversity — both in research interests and in methodological approach. On one methodological extreme, Professor Stephen Marglin has contributed a great deal in providing new foundations for 'radical economics'. On the other end, Professor Robert Barro and others have argued strongly for free market policies. Most of the faculty lies near the mid-point of these extremes, taking the view that neither governments nor markets always function effectively. This provides a potential role for the government in mitigating the imbalances of markets. But it also provides a healthy realism as to the limits of governments. Given the great range of views, you can imagine that seminars are often very lively!

Recently, there has been much interest by economists in understanding corruption, bureaucratic, and electoral politics — areas traditionally the exclusive domain of political scientists. Several of my colleagues have been involved in this work, both in developing new theories and in analyzing data. One of the most appealing attributes of economists is that they are incorrigible intellectual imperialists. Thus,

they are constantly using economic logic to explain phenomena usually reserved for anthropologists, sociologists, legal scholars, and others. Of course, the anthropologists, political scientists, etc. might not like it, but in general it's a healthy trend. To cite one example, recent work by Professor Martin Weitzman uses economic analysis to characterise the genetic diversity or endangered species of cranes, the beautiful birds which live in the southern United States. While seemingly esoteric, it turns out that this work is very helpful in evaluating alternative environmental policies. But you need not be too concerned, all also worry about unemployment, inflation, national income, and all of the traditional areas of economics.



DS: Tell me how the famous debate between Monetarists and Keynesians is viewed at Harvard.

JM: The debate has come a long way since its height twenty years ago. The vast majority of economists now reject the orthodox monetarism of days gone by, with its strict free market orientation, although most now accept that inflation is largely a product of too rapid money supply growth. An important new school is arising, which some call the 'New Keynesian' approach because many of the views echo those put forward by John Maynard Keynes in 1936 in his famous General Theory. The New Keynesians believe that there can be critical failures in credit and labour markets due to the costs associated with transactions in the market — especially when people do not have all the relevant information necessary to make the best possible choices. This means that appropriate government policies can reduce unemployment, and raise incomes. The difference with the older Keynesian tradition is the attempt by younger

scholars to provide rigorous microeconomic justifications for their macroeconomic policy prescriptions. This programme has been quite successful, but many of the micro and macro links are still tenuous.

Interestingly, while this work has been very 'mainstream' in its approach, it has taken up some issues of power and discrimination which once had been the exclusive concern of the left. Still, you're not likely to catch any of the New Keynesians reading Marx's Capital.

DS: What are the approaches to economic development at Harvard?

JM: There is much concern with economic development at Harvard, in the Economics Department and elsewhere — especially at the John F. Kennedy School of Government and the Harvard Institute for International Development (HIID). At the School of Public Health there is long-standing involvement in Bangladesh, and the director of the Center for Population Studies, Lincoln Chen, has lived in Dhaka for many years.

Within the Economics Department, most professors believe that encouraging markets to expand is an important step in the development process. This means that governments should privatise and remove distortionary taxes and regulations. This has been widely argued by Professor Jeffrey Sachs in advising on the economic transitions in Russia and Poland. Others argue that there are times when the government should actively intervene to stabilise prices and address market failures, as has been successfully put forward by Professor Peter Timmer in the many years that he has worked on the Indonesian economy. There is little sympathy for Marxist approaches to development in the Economics Department and Kennedy School — and this is reinforced by the long string of failures of Marxist governments.

Still, Professor Amartya Sen, who next year will be President of the American Economic Association, has demonstrated that governments can achieve much in terms of improved health and education conditions by direct spending, even in poor countries like Sri Lanka and China. While such programs are costly, the benefits are also great. Reaching a fair balance between economic growth and economic equality is still a very real and difficult problem — one which economists, philosophers, and other concerned citizens need to address together.

DS: How would you view the cause of underdevelopment?

JM: I could spend a year trying to answer your question, and you probably would still be unsatisfied. Let me mention two areas which mainstream economists — and I include myself in that category — usually do not address: discrimination and politics. An important element of the process of development is the expansion of opportunities and creation of access to credit and earnings opportunities. When resources are tight, there is a temptation for those who have access to guard it dearly. But the result is that those who start with little are often pushed fur-

ther downward. At least in principle, the government can play an important role in limiting such discrimination and sometimes, in redistributing income. This is part of the conclusion of my work in rural India.

DS: The World Bank and IMF tell developing countries that they must reduce tariff as a condition of receiving loans. But the US, Japan and Europe all have protectionist policies themselves. How do you view this contradiction?

JM: This is a fair question. Many of the tariffs put by both developing and developed countries can not be justified economically and ought to be removed. The concessionary tariffs that are granted to many developing countries by Europe and the US are a step in the right direction, and, in their defense, the Bush and Clinton administrations have worked hard to keep protectionist forces at bay, at some political risk.

DS: One of the most important events of the last decade has been the collapse of the Soviet Union and the demise of so-called 'Socialism'. Having worked in both Russia and China, how do you view these countries now?

JM: I was in Russia in December 1991, just as the Soviet Union ceased to exist and Mikhail Gorbachev relinquished power. That winter was a difficult one, and the situation has improved only slowly, but reform was necessary to avoid the imminent collapse of the food sector and matters would be far worse now had there not been the reform.

One thing which I hope does not get lost in the tumult of history is that great strides in living standards were achieved in Russia just after the revolution, although we should also not forget the political excesses and hardships imposed on the people at the same time.

DS: How is the Chinese experience different, and do you think that China can sustain its impressive growth rate?

JM: China has taken a very different path. They have chosen to continue subsidising many inefficient state enterprises, while rapidly freeing up agriculture and small industries around them. Thus, the transformation has been gradual. In China, people often say, 'to cross a river, you must touch every stone' which refers to their cautious, experimental approach to economic transition. The achievements in China have been great, and unlike in Russia, people have taken to the market with great enthusiasm. In Shandong Province, where I spent this past June, there is new construction beginning everywhere, and one often hears about people 'jumping into the ocean'.

DS: Do you think that Bill Clinton's policies will make a big difference in America?

JM: On the surface, I doubt that Clinton will change things radically, but America was ready for a new face, and it is good to have someone new in the White House. Clinton has recently made some political miscalculations, particularly in pushing his budget too hard and pushing too quickly on allowing homosexuals into the military — even though both are sound policies. In addition, his much-awaited health-care reform package is still much-awaited.

Offering Helping Hand in Computers



Rapid appraisal of climatic conditions in local areas is necessary for all field ecology work. Here information on recent rainfall, wind and humidity patterns in an area of savannah woodland is being downloaded on to a lap-top computer.

The project is part of an environmental assessment and pesticide monitoring programme. Scientists from the Natural Resources Institute (NRI), the scientific arm and executive agency of the Overseas Development Administration (ODA), which runs Britain's aid programme, spend a substantial amount of time on assessing situations in the field in the tropics. The introduction of the latest computer technologies has helped to make their work more effective and efficient.

The NRI's multi-disciplinary, problem-solving research and development work goes back through the Tropical Products Institute, the Land Resources Development Centre, the Centre for Overseas Pest Control and others to the late 19th century.

Today, NRI embodies a wide range of disciplines, notably chemistry, biochemistry, entomology, plant pathology, biogeography, land use, livestock, nutrition, food technology, engineering and economics.

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-Courtesy IFS

Savings and Credit for Self-Employment

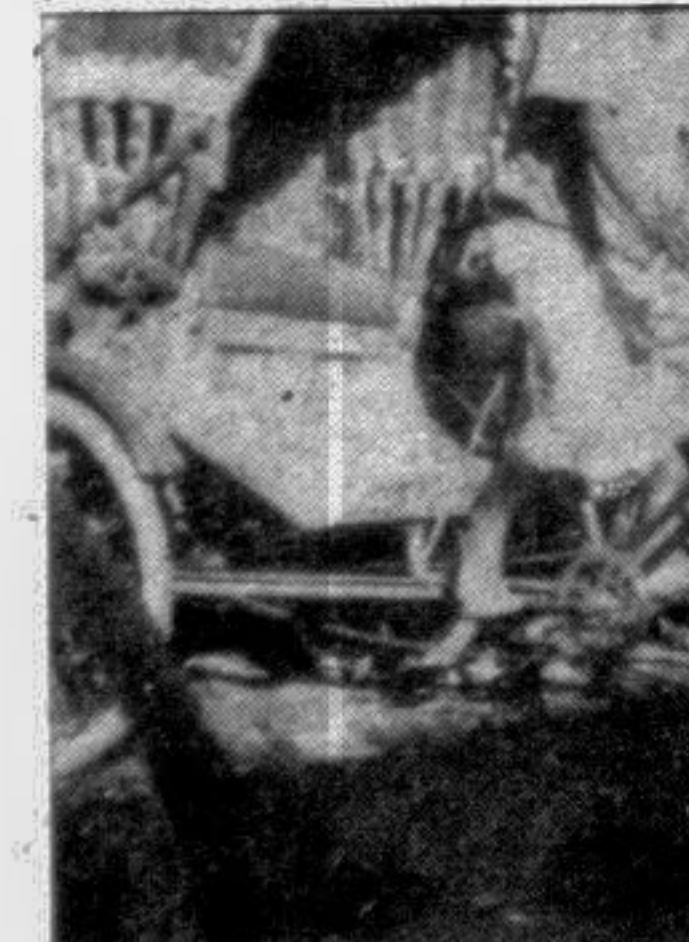
by M Maniruzzaman

ROTATING Savings and Credit Association (ROSCA) is a non formal group of some individual members (usually 10 to 20 members) depositing an agreed amount of regular savings (usually 10 to 20 takas) but it can be as low as 5 takas or as high as 50 to 100 takas, at fixed time intervals (usually daily, but it can be weekly or monthly also), and lending the accumulated saving to each individual member in rotation (weekly, every 10 days, fortnightly, or monthly), on the basis of an agreed principle, usually by lot.

A typical example is that a group called shomiti of 20 persons (or shares) deposit Tk. 10 every evening to a group member or authorized person (called Cashier). A lottery is held every fifteenth evening to disburse the accumulated savings of Tk 3000 (Tk 10x20 persons x 15 days) to the winner. So, the first lucky man winning the lot gets the fund of Tk. 3000 and usually invests in buying a rickshaw or push cart. All the members continue depositing including the winner. After another 15 days, the second lottery is held in which the first winner is excluded and the lottery is held amongst 19 persons. The second lucky man gets the money. On 45th day, the third lottery will be held amongst 18 members. On 300th day, the 20th turn, there is no need of lottery as just one man is left and he gets the money. So, in 300 days every members' contributes Tk 3000 and every one gets Tk 3000. The ROSCA cycle (called 'Khela' meaning a game in Bangla) is over. The group is disbanded but reformed usually with the same or different persons. By this process, a substantial number of people in Ibrahimpur area of Dhaka city have been able to stand on their own feet by purchasing rickshaws, pushcarts or establishing a grocery shops, tea shops etc.

Simple and Interest free

It is interesting that the Bangladeshi ROSCAs are very simple in nature and there is no element of interest rate in it. For that reason it is highly appreciated in a Muslim community which is very vocal against usury. In one ROSCA, I have found a mixture of Muslim and Hindu members. There is no religious or social restriction on it as usury is not involved. Account keeping is also very simple since the calculation of interest is not required and the transactions are very simple. Each ROSCA group has just one note book with the cashier for keeping accounts.



Members of the ROSCA purchased rickshaws through ten-taka savings daily

In this simple interest free ROSCA one who wins the lottery (Khela/ game) at the beginning is the most gainer and one who gets the money at the end is the least gainer. Therefore, every body wants to get the money, as early as possible to have a gain of 'interest windfall'. But it is very difficult to decide who should get early and who should wait. So, the lottery system has come to solve this problem.

Benefit of Cashier

In Bangladeshi system the founder member or the cashier (the founder may or may not be nominated as cashier) do not benefit of the cashier is also important as it gives him prestige and leadership role with in the group and in the community.

joined it 3 or 4 years ago. By now, he has been able to buy more than a dozen rickshaws. Many others who were rickshawpullers or pushcart labour, or petty traders have been able to buy some rickshaws, pushcarts or expanded their business in this way.

I have myself found, about a dozen such ROSCAs in Ibrahimpur-Sewrapara area of Mirpur in Dhaka city.

have any financial benefit except that he can use the money kept at his custody, say Tk. 10 daily by 20 members i.e. Tk. 200 for a temporary period until the next lottery is held, say upto 15 days. So he has always a small capital (average 1500 taka cash in this case) which he usually utilizes as running capital in his business like grocery shop. Very often, the cashier is a shop keeper, not a rickshawpuller. So, he has this advantage of utilizing the money. It is estimated that monthly benefit of using such fund is about Tk. 150 assuming 10 per cent monthly interest rate existing in the non-formal money market in such communities. The social

Limitations of ROSCA

ROSCA has one limitation. Only those having some regular cash income can participate in it. For example, the rickshawpullers and petty traders can participate in ROSCAs, while the farmers and farm labourers can not participate as they do not have regular cash flow of income. For this reason it is observed in the urban areas and in the market centres.

Conclusion

ROSCA is a very good system of mobilizing and distributing own savings. It can benefit anybody and everybody participating in it. Small traders and rickshawpullers have ROSCAs with daily contribution of Tk. 10. Some medium shop keeper have ROSCAs with daily contribution of Tk. 25 to 50 investing in business like street side restaurants or tea-shops. Relatively bigger ones have daily contribution of Tk. 100 investing in enterprises like Baby-taxi. It is self sustaining and cost effective institution on self help basis.

ROSCA is expanding quite rapidly in the urban and semi-urban areas. It is likely to expand more. Academicians, NGOs and the journalists should take note of it and help to spread it in other areas where it has not penetrated yet. One caution is made in this regard, that, none should try to give any sort of loan or otherwise external assistance to this system. If it is done the system is bound to collapse like externally aided cooperatives or fake NGOs etc. Lets people develop their own institution, not ones with too much outside assistance.

The author is a local professional, presently involved in a Danish aided development programme in Bangladesh. This work is however his personal initiative and responsibility. The author was inspired by Mr Stuart Rutherford, Advisor, Action Aid, Bangladesh. Michael Vinding, Counsellor, Royal Danish Embassy, Dhaka provided his valuable study on Nepal.

benefit of the cashier is also important as it gives him prestige and leadership role with in the group and in the community. Collateral In most of the ROSCAs, the group members are all known to one another. So, no guarantor is needed to get the money disbursed on winning the lottery. However, the rickshaw, pushcart or the shop etc. act as collateral, as the rickshaws/pushcarts on which the money is usually invested are kept at the common garage, and these cannot be taken away until the ROSCA cycle is completed and the person concerned is not allowed to leave the area or sell the property (rickshaw or grocery shop) until the full amount is settled. I have seen one example in which the man who won the first lottery was a new man also not having any property in the area. So, the group did not disburse the cash to him, rather they bought a rickshaw in his name and kept it at the com-

Serving the Urban Displaced

by Fayza Haq

JHENIDAH Ex-Cadets Association (JEXCA) comprises successful doctors, engineers and economists. But they are not only concerned about themselves and their well-being but are doing something tangible for the poor in the country as well. They have set up a free Friday hospital and work there relentlessly.

Dr. Mamunur Rahman, general secretary of the organisation said, 'People talk of rural health but there is need to help the displaced in the city of Dhaka when your neighbours are poor and unhealthy. I devote my time once a month for this purpose. We also collect data and these involve more working days.' Dr. Rahman, who works in the Emergency Preparedness Programme of WHO, showed data to prove the labour that went into the hospital. 'The members of JEXCA donate Tk. 2,500 a month and we collect medicines from pharmaceuticals, free of cost, whenever we are offered. We also have applied for medicine but we received a donation only in '87. We were given Vitamin A and B complex, and basic medicines like Disprin, antacid and eye ointment. The patient registration brings us Tk 350 per week. The 30 doctors and the 50 volunteers are adequate.'

Kh. Salauddin, chairman of the clinic sub-committee, and an engineer with PWD, spoke of the space limitation. 'We have dedicated doctors and volunteers but are often short of funds and medicines. We are exploring every corner and got medicines and not necessarily cash.' Lutfa, 25, a mother of two children whom one found at the hospital said, 'I've brought my son as he suffers from indigestion. I have also come to treat myself as my right hand aches when it rains or it is cold, specially when I have to do rigorous housework, like washing and grinding spices. People in my neighbourhood informed me that the medicines and the treatment in this place are very reliable and promising and so I come here.'

Fatima, who is 24, came with her son who had fever and was emaciated. 'I come here regularly after the child's skin disease has been cured,' she said. A flow of patients streams into the clinic on the Friday morning, no matter if it rains or the weather is otherwise foul. This is a measure of the success

and the promise of the project. It was heartening to see young professionals being selfless and concerned about the well-being of the masses, and actually doing something about it, sacrificing their own time and money.

The JEXCA health service, since the beginning, has tried to serve the people of Bangladesh through community-aided programmes such as blood donation programme, posthumous eye donation, etc. Incidentally, the association is a tax deductible one.

In 1986, 13 years since the association began, it was decided that JEXCA had the right

registering both old and new patients

- 1) General medical section
- 2) Dispensary
- 3) Pathological section
- 4) Data section for analysis of the patients' data and giving feedback information

All the sections are run by volunteers.

Every new patient is registered with the clinic for a fee of Tk 10 and the remaining visits costing Tk 5.

A complete medical history is recorded, physical examination carried out and the needful pathological investigation asked for. Detailed medical records are kept for the future. Instructions are given on diet, personals and household hygiene, child bearing, breast feeding and family planning.

The clinic is equipped to perform bedside investigations that are necessary for diagnosis and procedures.

The diet wing maintains all the medical and socio-economic statistics outlined in the health card for further analysis in the computer. The purpose is to register community medical and related statistics which will help future decision in planning. The monthly disease profile and patient attendance records are studied every month to find the trend of the diseases and the variation on sex and age groups.

Should the patients require special investigation and opinion of specialists, they are sent to honorary consultants and other institutions. All the patients have to report back to the clinic for follow-up advice and medication.

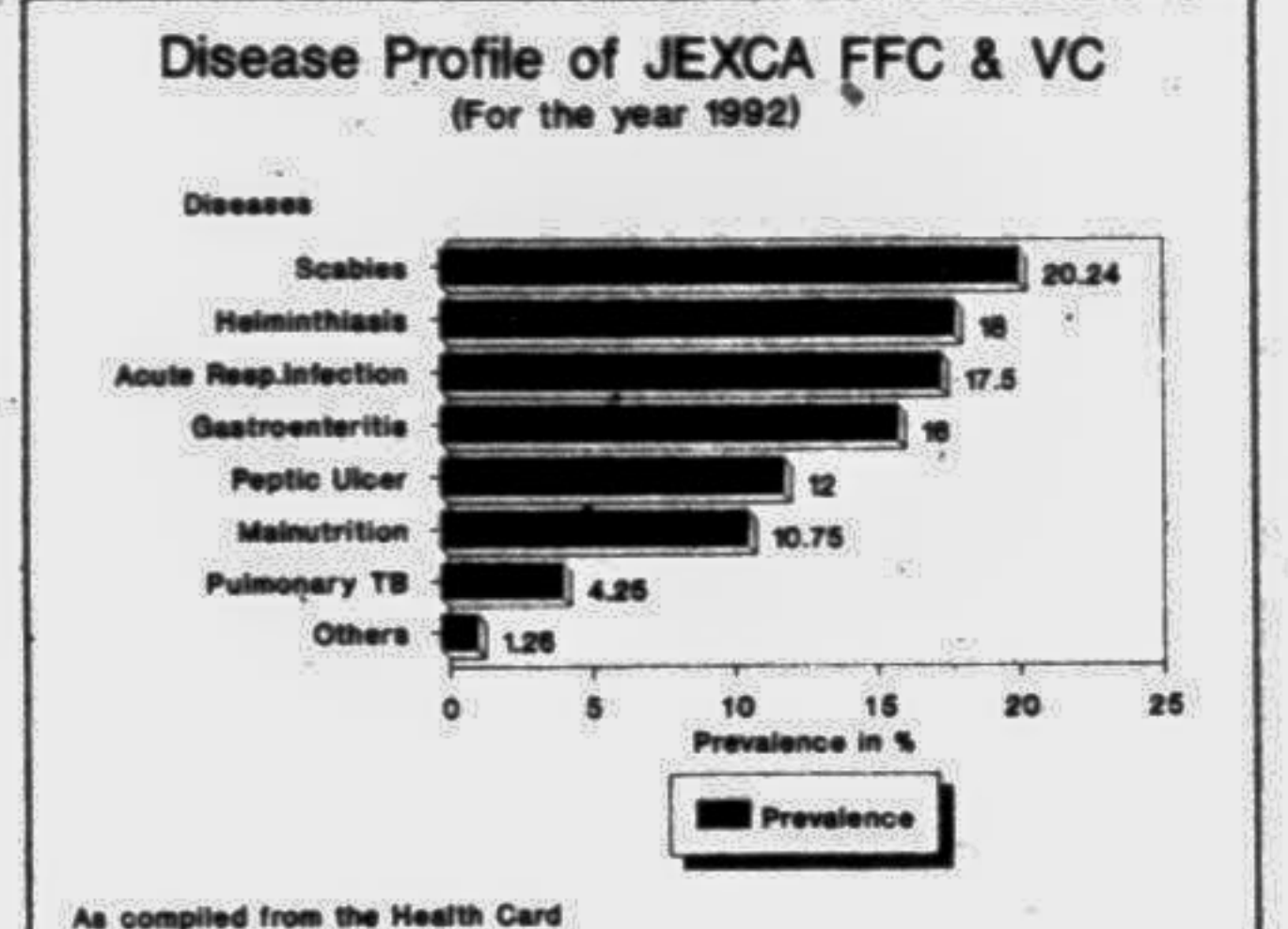
At present the centre provides only curative health-care service to the surrounding community. Some of the services like health education, motivational programme on the use of ORS for dehydration, distribution of vitamin A, promotion of breast-feeding and promotion of sanitation and hygiene are a routine part of the centre's present activity.

From August, '93 the programmes it plans to carry out include:

- 1) Immunization programme
- 2) Mass deworming of children
- 3) Family planning methods (consultancy and distribution of contraceptive methods)
- 4) Vitamin A supplementation programme
- 5) Nutritional surveillance for vulnerable groups
- 6) Monitoring of growths of infants.

The JHS has member taken from relevant professional fields and appoints the project coordinator of JEXCA FFC & VC, who is in charge of the clinic. The centre has five sections.

1) Registration section for



As compiled from the Health Card

to combine professional resources through a broad platform so as to have the optimum utility of its sources. Since it has 200 doctors, with the majority being based at Dhaka, it was easy to establish the 'JEXCA Health Service' (JHS).

During the '88 floods, JEXCA began a 24-hour basis Emergency Medical Assistance Programme from September 7 to September 25. Later the civil surgeon's Office of Dhaka recognised this as an important health centre for the whole of Mirpur. The voluntary Health Services (VHSS) provided some emergency medicine for the programme. Later, in October, with the aid of Overseas Development Administration of UK, JEXCA began a 20-bed diarrhoea hospital at Mirpur Town Hall for a month. In recognition JEXCA shared the BBC TV's 'Heart of Gold' award along with other volunteers.

JEXCA Free Friday Clinic and Vaccination Centre (JEXCA FFC&VC) was a great success in health service. The space has