

The Draft Industrial Policy 1997

Some Comments

by Dr. Montaz Uddin Ahmed

As part of necessary preparations for entering the 21st century with enhanced competitive strength, Bangladesh has to develop a highly competitive economy, backed by a dynamic and vibrant manufacturing industries sector.

THE formal announcement of the Industrial Policy — 1997 (IP-97) is long overdue. After deliberations and discussions by an Expert Committee for several months, a Draft Policy was available for comments and views in February, 1998. The Bangladesh MBA Association arranged a Round Table Conference on IP-97 at Hotel Sheraton, Dhaka, on 27th February 1998. Since then no such formal discussions seem to have been arranged by any organisation or groups nor there is any indication from the Government about a tentative date concerning formal launching of the Policy.

The plausible reason for the delay while unknown, is presumed by the informed corners to be caused by serious disagreements among various vested interest groups about the overall framework, various issues and strategies of the policy. Whatever valid reasons might be holding back the announcement of IP-97, the undue delay seems to reflect lack of determination, commitment and capacity of the policy-makers to formulate and pursue poli-

cies in the face of opposition from the vested interest groups. However, in the backdrop of the country's Fifth Five Year Plan (1997-2002) already being launched and the time for presentation of the National Budget 1998-1999 approaching fast, the announcement of the IP-97 cannot perhaps be further delayed.

A few comments are in order on the approach to the formulation of IP-97 before it comes out in the final form. IP-97 is being formulated in a significantly changed context of a new market-oriented and liberalised policy environment. Under the changed context, the private sector has to perform the lead role in accelerating the growth of the industrial sector. In conformity with the lead role and a much wider responsibility assigned to the private sector in the Fifth Five Year Plan for attaining the Plan objectives, IP-97 must contain guidelines and strategies and concrete programmes of actions in order to ensure growth of a vibrant private manufacturing sector.

In this context, the draft IP-97 does not appear to exhibit

relevant features befitting the expected role model. For example, there is no concrete proposal towards streamlining and removing operational bottlenecks resulting from various Government regulations and procedures which lead to unnecessary bureaucratic lethargy, red-tape, ineptness, delays, hidden costs and corruption. Indeed the magnitude of difficulties, harassment and frustrations caused to the entrepreneurs by many of the existing legal and administrative regulations and procedures must be seen to be believed. While many of the regulatory functions and procedures have been abolished to facilitate operation by the private entrepreneurs, the overall framework is still not very conducive to encourage private sector participation.

In the draft IP-97 there is no firm declaration of any deadline for completing the process of privatisation of the SOEs nor there is any strong commitment towards speedy completion of privatisation process. The small-scale industries, the most dominant and dynamic categories within the private

manufacturing industries sector, again seem to have received only a lip service from the policy makers, as the sub-sector historically did from their predecessors. As usual, IP-97 makes no concrete proposals and declares specific plans of actions for the development of various segments, i.e. urban and rural small and cottage industries, rural non-farm sector etc. of the small industry sub-sector.

As part of necessary preparations for entering the 21st century with enhanced competitive strength, Bangladesh has to develop a highly competitive economy, backed by a dynamic and vibrant manufacturing industries sector. In that direction, the whole approach to the formulation of industrial policies has to be reoriented. Instead of talking broadly about industrial development in rather vague terms, we need to identify certain thrust sectors based on our comparative advantages, pick winners, and formulate appropriate policies and strategies to support them.

Picking winners means identifying industries which may be presently uncompetitive but have future potentials for higher productivity and income growth, leading over time to cost reductions and increase in international competitiveness. For a successful shift towards such pragmatic policy making, the formulation of industrial policy has to be accompanied by formulation of appropriate investment policy, technology policy, and trade policies.

Finally, a significant reform and restructuring of the institutions involved directly and indirectly in the process of implementation of the policies has also to be carried out to translate the policies into action. The commercial banks and DPs, BSCIC, BOI, BIM and NBR are the important institutional actors whose performance needs to be substantially improved to ensure efficient implementation of industrial policies in Bangladesh. The Draft IP-97 did not have much to say in concrete terms along these lines.

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Prof Yunus and Economics

by Nasreen Khundker

It is true that economics texts do differentiate between categories of skilled and unskilled labour, but this does not free labour of the limits and constraints imposed on their creativity, in most large-scale modern industries.

IT seems that Prof Yunus has started a debate by his criticism of economics at a recent conference organized jointly by the International Economic Association and the Bangladesh Economic Association in Dhaka. Amongst the writings that followed on this issue in the Daily Star, I would like to thank Dr Nazrul Islam from Emory University, USA (previously a colleague at Dhaka University) for putting things into perspective.

First of all, I would like to point out to the readers that dissent is common in all disciplines including economics, and is at the essence as to how knowledge progresses.

Dr Nazrul Islam is right that Prof Yunus' criticism is mostly directed at the dominant paradigm in economics, and that new text-books should incorporate much more the analysis of institutions. However, I would like to add a few more points to this debate.

Prof Yunus is definitely right when he says that poverty is created not by the poor, but by 'the theoretical framework that we work with, the institutions that we built, policies that we pursued, and the norms that we created'. This may be true not only of poverty but also of other aspects such as gender relations, the population problem and the development process in general (three other areas of failure of economics pointed out by Yunus).

It is unfortunate that it is not only Neoclassical Economics, but Radical and Marxist Economics, which have traced a path of history as a unilinear transition from traditional to modern societies where the surplus labour from agriculture is drawn into wage employment in modern indus-

try. (Think of the Lewis model, but also Marx's analysis of capitalist development which conforms to the historical experience of a few Western countries). Anything which detracts from this vision of a unilinear transition is often dismissed as being romantic. Thus economics text-books separate households and firms, the latter as consumers and suppliers of labour, the former as producers with the prime role of the entrepreneur in organizing production.

In this scheme therefore self-employment may persist but as remnants of a pre-capitalist and inefficient mode of production. The only problem is that despite this characterization, at least two-thirds of the economy of most developing countries consist of small 'informal' producers in a setting where the distinction between the firm and household is blurry one. The mind-set of policy makers which Prof Yunus talks about has for decades prevented any substantial flow of resources, be it credit, technical know-how or other productive inputs, from going to this sector, in Bangladesh and other developing countries. Moreover, this mind-set is typical not only of government but also of international agencies. In this sense therefore the Gramscian experiment is indeed a breakthrough, though it may

have its own limitations and shortcomings.

Other examples may be cited of this 'text-book paradigm and the mind-set that it determines. For the last two decades, economists world-wide have highlighted efficiency over equity issues. Yet the criterion of efficiency used is profit. This of course rules out any 'socially conscious' entrepreneurship, be it in the private or the public sector. It also rules out any subsidy as being bad, without answering the question why it is harmful to tax the rich (enterprises producing for the rich) to subsidise the poor. Similarly, while it is advocated that 'undistorted' prices achieve efficient resource allocation, it is conveniently forgotten that prices reflect the underlying income distribution. It is also common to ignore the costs of efficiency, be it pollution, crime or social unrest.

One frequent mistake made by conventional economics (see Mr Kabir Ahmed's article in this newspaper) is that one can separate economics and politics. Thus while economists give the right policy prescriptions, it is politicians who fail to implement them. Such a position is untenable, since the 'right' recommendations have to follow from an in-depth understanding of the socio-political, as well as the economic situation. It cannot follow from

some simplified propositions from current economic texts or certain optimising rules (utility maximisation, profit maximisation, benefit-cost ratios etc., etc.). At least one must recognize that these optimising rules and conditions apply to a very limited range of situations.

Yunus further claims that economics texts treat labour as draught animals, denying them of creativity (unless they take on an entrepreneurial role). Incidentally, Marx also claimed that labour employed in modern factories suffered from alienation, because of the particular relations they enter into with capital and management, in this method of organizing production. It is true that economics texts do differentiate between categories of skilled and unskilled labour, but this does not free labour of the limits and constraints imposed on their creativity, in most large-scale modern industries. It is also undeniable that Radical and Neoclassical economics texts have both emphasised the accumulation of capital as a prerequisite for economic growth and development, underplaying the accumulation of skills and learning, though the empirical literature shows that the latter is much more important than the former.

The moot point is whether such generalizations of economics texts and the dominant methodology in economics influences the mind-set of policy makers. I would tend to agree with Prof Yunus that it does. In this context therefore the challenge remains for going beyond the confines of traditional texts and thought patterns to think of creative options as solutions to our problems, be it poverty, alienation or social conflict.

Should Economics Textbooks be Blamed for Poverty?

by Manzur Alam Tipu

IN an article entitled 'What Economics is Not About!' published in The Daily Star last month (April 4), Mr Abdul Bayez presented a summary of Dr. Mohammed Yunus' speech made at a recent seminar. I was shocked to find that in his speech Dr Yunus claimed that teaching of economics is to blame for poverty, unemployment and corruption in the present day world. I couldn't believe my eyes when I saw that he categorically stated: 'seeds of poverty are planted firmly in the pages of economics textbooks.'

As a student of economics I strongly feel that the highly respected Grameen Bank wizard, despite his success in his work with the poor, has made these rather outrageous statements because of his failure to understand some of the very simple lessons expounded in the economics textbooks. I have attempted to summarize Dr Yunus' argument in support of his attack on traditional economics and then give my responses to each of his comments below.

A Summary of Dr Yunus' Comments:

1. Economics textbooks are not about the poor, the women and the real human beings. These people are, if ever referred to, subjects to serve the prince, the entrepreneur.
2. By putting majority of human beings under one category called 'labour' textbooks of economics assume that 'they have no creativity, no ambition, no sense of sacrifice, pride or accomplishment, worst of all they have no gender.'
3. Economics as a social science is a case of 'failure' in alleviating poverty because of its failure to understand poverty and human creativity.
4. Economics assumes that marketplace is for the rich, selfish and greedy entrepreneurs and that's why only greedy people are encouraged to be there.

According to Dr Yunus as presented by Mr Bayez: 'had there been a level playing field, the guardians of greed would surrender to the socially motivated workers and entrepreneurs.'

5. If economics textbooks are written in accordance with the suggestions he made 'poverty should find its place in the museum.'

My Response:

1. The idea that entrepreneurs are treated as the prince and the poor and women as the slaves of the entrepreneur must have come from some prehistoric textbooks. Modern economics textbooks clearly state that there are three factors of production: land, labour and capital. Only very few textbooks mention that entrepreneurs used to be thought as a separate factor of production by some economists in the past. I am not aware of anyone other than Schumpeter who emphasized the role of entrepreneurs as central to economic development.

In old days when businesses did not organize themselves according to modern corporate structure individual entrepreneurs were treated as a separate class. But in today's world the CEOs and directors of, say, IBM, AT&T, Mitsubishi or Ford Corporation are merely white-collar labourers and they work for the shareholders. Shareholders, the owners of capital, in turn include blue-collar labourers and other ordinary people. There are some large corporations owned and managed by labourers. The issue of the special status for entrepreneurs is totally irrelevant in today's corporate world.

I suspect that Dr Yunus has long been out of touch with modern economic teaching or research. If he would take a

look at the articles published in the leading journals of economics he would not fail to notice that in most microeconomic or macroeconomic modelling a two-factor (variable K for capital and L for labour) model is used. The exception would be single-factor models using L as the only factor of production.

2. Dr Yunus seems to have failed to understand the purpose of simplifying assumptions used in economics, or any other science. In botany, for example, to understand the effect of sunlight on the growth of a particular plant we have to assume that there is no difference in the level of water intake by the plants, an unrealistic assumption. In economics, when our purpose is to find the effect of a change in price on the quantity demanded of ice cream, we ignore the difference in gender or age of a customer. Does it mean that botanists consider water-intake to be inconsequential for plant growth, or economists are blind to the effects of gender or age in determining the demand for ice creams?

A little study of the methodology of science should convince anyone that the choice of assumptions depends on the purpose of the study. Just as Grameen Bank has studied gender differences in loan repayment

among historians that international trade served as the most powerful engine of growth freeing millions of human beings from the shackles of poverty.

There is also little doubt that since the publication of Keynes' General Theory, western economies have been enjoying much more stable growth, free from catastrophes like the Great Depression.

4. Dr Yunus is not the first person in the world to express the conventional wisdom that if the economy were controlled by the socially motivated instead of the selfish and the greedy, society would be better off. It required the genius of Adam Smith to show that, in a market economy, the working of selfish individuals for their narrow self-interest generates much greater welfare than the welfare resulting from the working of the socially motivated people seeking to maximize social good.

This sounds paradoxical but a couple of examples should make the point clearer:

Example 1: Take the Case of a Socially Motivated Philanthropist vs. a greedy Garment Factory Owner. Suppose a philanthropist decides to donate one million dollars cash to the slum-dwellers of Dhaka City every year. Everyone would praise her work and her picture would

fill expensive front-page spaces in every major newspaper. What social good can we expect from this socially motivated work? Some of the poor may receive some immediate benefits in the short run. In the long run this would start off a severe competition among the poor to receive a share of that charity resulting in traffic jams, fights, killings, and many other wastes. Moreover we can also expect this charity to discourage productive work and encourage many types of unproductive behavior carried out with the purpose of maximizing one's share of the dole.

On the other hand, if a 'greedy' and 'selfish' individual were to establish a profitable garment factory with a million dollar just for his personal profit, a lot of people would benefit through direct and indirect employment. Self-reliance and hard work would be encouraged. Although there would be no picture of this gentleman in the newspapers, whole society would benefit through the selfish behavior of this individual.

Example 2: Take the Case of Adamjee Jute Mill. Socially motivated people nationalized it for achieving greater social good. Now the situation is such that every year poor taxpayers are forced to pay millions of taka as subsidy that could be used to set up at least one school in each of the sixty-eight thousand villages of Bangladesh. According to Adam Smith's logic our society would be much better off if a 'greedy' private corporation was operating the factory [even if they were to convert it into a real estate project for its shareholders' profit].

When Dr Yunus is stating that only the greedy individuals are encouraged (perhaps he is referring to State encouragement) to be in the market place, I do not know which country he is talking about. Entrepreneurs like Ford, Rockefeller or Bill Gates were never supported by

the State because they were greedy and selfish. If he is talking about our country's effort to encourage potential industrialists by offering concessional loans, it is because socially motivated people in power thought that it is the right thing to do. Had the market been left alone to take its course without any intervention from the socially motivated State-owned banks we would not have to suffer the current default crisis.

In the former Soviet Union the socially motivated proletariat took over the economy and we all know the consequences. Can Dr Yunus suggest an alternative mechanism to determine who are socially motivated and how to run the economy with them?

5. Countries that achieved high standard of living achieved economic growth by increasing labour productivity through technical progress, accumulating capital through high rates of saving and investment, and by rapid transfer of labour from the traditional sector to the modern sector.

These are historically proven paths of economic development. I do not think Grameen Bank offers any substitute path for achieving rapid economic progress.

The brightest aspect emphasized by Grameen Bank is its very high repayment rate. Does merely a high repayment rate reflect or ensure a high rate of growth? It is quite simple to understand that if one is not forced to sell his own belongings one is able to repay loans from the growth of output. Therefore, normally, if a person (society) borrow at 10 per cent real rate of interest, his (society's) output should grow by at least 10 per cent rate to justify that rate. Grameen Bank has been operating in the villages of Bangladesh for quite a few years with an interest rate of no less than 20 per cent. Has the rural economy as a whole or any sector of it grown at 20 per cent rate to justify such a high rate of interest?

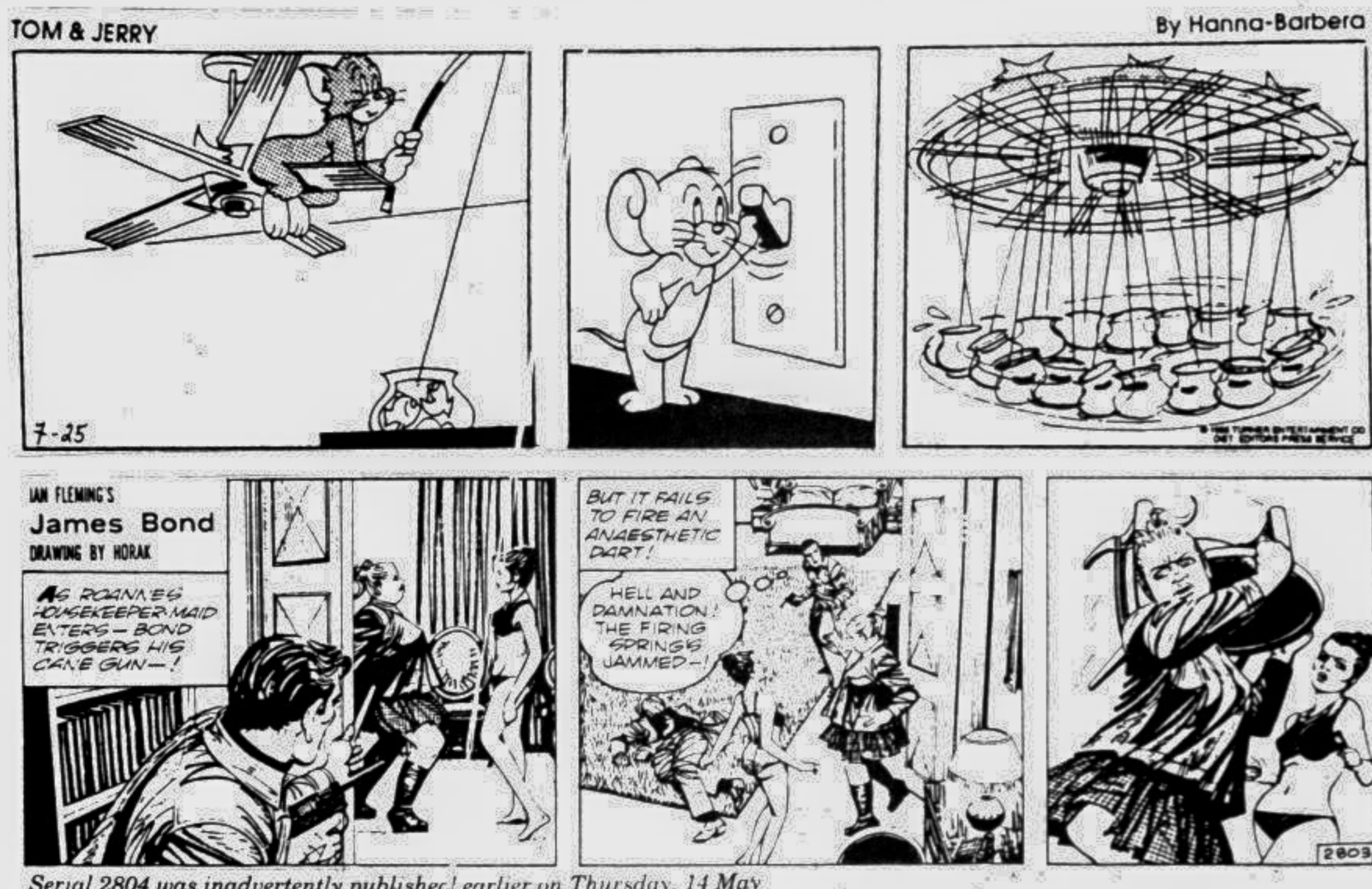
Normally a 20 per cent rate of interest is justified only in very high-growth advanced-technology based sectors. How can there be such high rates of growth in small trades based on primitive technology? If it were true that Grameen Bank borrowers have indeed achieved an average rate of profit of 20 per cent many non-borrowers would quickly replicate their success by investing their own money in those types of business. This replicating behavior should cause the whole rural economy to grow at 20 per cent rate. Will this ever occur?

How can Dr Yunus dream of putting poverty in the museums in an economy with a growth rate of 4 per cent or less?

I share his optimism that poverty shall be eradicated pretty soon from the face of the earth. But I believe that only creative options of rapid technological progress and rapid spread of knowledge could do this. The most fundamental reason Grameen approach may offer a viable growth path for Bangladesh is its dissociation with technological innovation and high-productivity modern sector. To me, the rural poor need education and training in modern technology much more than they need credit. Credit can help those who know how to make best use of it.

I shall be very happy if my pessimistic evaluation is proven wrong. Even if my criticism against Grameen is proven wrong, I shall need much stronger arguments to convince myself of the need to rewrite the text books of economics for eradicating poverty.

The writer, a PhD (Houston), is Associate Professor of Economics, East West University.



Serial 2804 was inadvertently published earlier on Thursday, 14 May.

Metropolitan

CHT Hill Students' Council meet held

By DU Correspondent

Speakers at the 5th council of the Dhaka City unit of the Greater Chittagong Hill Tracts Hill Students' Council vowed to continue their struggle for full autonomy, says a press release.

The Council was held at the DUCSU cafeteria of the Dhaka University on Saturday with Promeswar Chakma in the chair. Finance Secretary of Pahari Gano Parishad Debashish Chakma was present as the chief guest while president of Hill Women Federation Kabita Chakma attended as special guest.

The council was addressed, among others, by Benzin Chakma, Sumita Chakma, Rui Mong Marma, Bikram Dewan. A-19 member new Executive Committee was formed with Promeswar Chakma and Utpal Nisa as president and general secretary respectively.

Theatre festival begins in Calcutta

Speakers expressed their deep shock at the death of Shaukat Osman, a noted litterateur and paid respect to his memory at a function marking the inauguration of Bangladeshi Theatre Festival in Calcutta, reports BSS.

The function was jointly organised by theatre groups — Theatrewalla, Samakalin Silpi Dal and cultural organisation Samalay at Howrah Sarat Sadar in greater Calcutta on Friday evening, said a message received yesterday.

Speakers at the function attributed Shaukat Osman as the most courageous writer of recent time and said that his writing against autocracy, injustice and communalism is the great source of inspiration for young generation.

Death anniversary

From Staff Correspondent

CHITTAGONG, May 17: The third death anniversary of eminent journalist Alhaj Kazi Kabir Uddin will be observed at his residence at Salimpur tomorrow.

The occasion will be marked by Qurankhwani and milad mahfil. Kazi Kabir, who started his career as a journalist in 1937 played a pioneering role in the field of journalism in Chittagong. He worked as Editor of The Daily Insaaf, The Daily Azan, weekly Sattiyabarta.

Navy recovers smuggled goods worth Tk 29 lakh

Bangladesh navy ships operating from Chittagong and Khulna naval areas recently seized smuggled goods worth about Taka 29 lakh, 24 thousand and 5 hundred in different raids in both the areas and arrested a total of 46 persons including 27 foreign nationals, an ISPR press release said yesterday, reports BSS.

29-member convening body of Sub-Editors formed

A 29-member convening committee of 'Sub-Editors Forum' was formed at a meeting held at the National Press Club yesterday, a press release of the forum said, reports BSS.

The meeting was presided over by Ashraf Ali.

Office bearers of the committee are: Convenor Md Ashraf Ali (Observer), Joint convenors Ashok Sinha (Sangbad) and Amirul Islam Kajagi (Dinkal).

Members of the committee are: Kazi Maksudul Hassan (BSS), Anisur Rahman Salim (Financial Express), Khondkar Fazlur Rahman Furi (Observer), Shantanu Chy (UNB, Bangla Service), Syed Afzal Hossain (New Nation), Pramitho Hossain (Bangla Bazar), Pronab Shah (Banglar Bani), Akhtarruzzaman (Mukta Kantha), Shah Md Mutasim Billah (Sangbad), Faruk Ahmed (Millat), Maqbul Hossain (Al-Mujaddid), Humayun Sadek Chy (Dinkal), Ashraful Islam (Provat), Kaikobad Milan (Ittefaq), Azizul Huq Ershad (defunct Danik Bangla), M A Haider Khan (Janakantha), Arzina Rahman (Inqilab), Shantimoy Biswas (Khabar), Quadrat-e-Moula (APB), Bhanu Ranjan Chakrabartee (Independent), Masuma Khanam (Sangbad), Farida Yesmin (Mukta Kantha), Akhtar Jahan (Al-Mujaddid), and Abdur Jalil Bhuiyan (The Daily Star).

Three more members will be co-opted later, the press release said.

Zillur condoles death of AL leader

Local Government and Rural Development (LGRD) and Cooperatives Minister Zillur Rahman yesterday condoled at the death of Nurul Islam Hefjur, an Awami League leader of Comilla district, a PID handout said, reports BSS.

In a condolence message he recalled the contribution of the late leader of the Liberation War and different mass movements of the country.

Weather

Thundershowers forecast

Rain or thundershowers accompanied by temporary kalboishakhi gusty or squally wind is likely to occur at a few places over Khulna, Barisal and Chittagong divisions and at one or two places over Dhaka, Rajshahi and Sylhet divisions in the next 22 hours till 6 pm today, reports UNB.

The Met Office predicted that day temperature may remain nearly unchanged over the country during the period.

It also apprehended deterioration in the weather condition in the subsequent two days.

The country's highest temperature 36.4 degree Celsius was recorded yesterday at Sylhet and the lowest 22.4 degree Celsius at Srirangal.

The sun sets today at 6:36 pm and rises tomorrow at 5:14 am. Maximum and minimum temperatures and humidity recorded in some major cities and towns yesterday were:

City/Town	Temperature in Celsius		Humidity in Percentage	
	Max	Min	Morning	Evening
Dhaka	35.3	23.8	67	48
Chittagong	35.0	25.4	67	73
Rajshahi	35.3	24.4	68	85
Khulna	34.8	23.6	72	82
Barisal	34.5	24.0	69	78
Sylhet	36.4	23.4	64	54
Cox's Bazar	35.2	26.0	68	57

Obituary

Nazim Mahmood, 65, a leading cultural activist and former Director of the Teachers Students Centre of Rajshahi University died at BIRDEM Hospital yesterday morning, reports BSS.

Mahmood, who was the president member of the 'Abriti Samannaya Parishad' was suffering from various ailments for the last few days. He left behind a son, a daughter and a host of well-wishers and relatives to mourn his death.