STRONG INSTITUTIONS FOR GOOD GOVERNANCE

Fractured institutions and the absence of an inclusive political system

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poverty line while inequality and joblessness are mounting. The process of development is at risk, with the absence of an inclusive political system and punctured institutions. These have evidently ditched enterprise-making at the bay, dwindling the actual realisation of potential job-creating economic growth, social development and environmental sustainability.

The spurt in economic growth, despite many interpretations including lamentations such as "surprise" or "paradox," was made possible in large part by migration of the underemployed from the countryside to urban cities and flowing out to the world over, mostly concentrating in West Asia. The remittance from home and abroad has fuelled largely consumption-led economic growth. Consumption is one of the four elements of GDP and the others are investment, government expenditure and net of exports and imports. The continual greater-than-before participation of women in labour market and women's entrepreneurship along with their demonstrated resilience have made inspiring changes. The farmers have continued to work tirelessly in their green croplands, with innovation and intensity, despite distress sale of products, without fair prices, with high input cost, and changing climatic conditions. There has been a creeping rise of entrepreneurship. Despite labour being at the heart of such development, labourers are dispossessed in a number of ways. There is a growing disparity between the rate of growth in employment and unemployment, implying fragility of absorption capacity and vulnerability of labourers to low wages and non-adherence to rights.

A section of society in these days is, however, asserting that economic development is more important than an inclusive political system. They go on to argue that authoritarianism may be condoned as long as a steady course of development is perused in the management of the economy. Such perspective has been emboldened in the wake of Bangladesh climbing up to the lower rungs of the middle-income group country status, which itself merits critical scrutiny and much of debunking. This piece, however, concentrates on the argument that putting economic development against aspirations for democracy is fallacious. This illusory proposition is backed neither by solid theoretical foundation nor by empirical validation.

Rather, during 1990-2014, the economic performance and social development outcomes of Bangladesh vis-à-vis similar countries have risen strongly. These 20 years also mark the rotation of power amongst the two major parties in the post-military and quasi-military authoritarian period. Secondly, research suggests that non-economic factors have a huge influence on economic outcomes, which means that institutions matter. If the institutions start to fracture in a country, there are problems in maintaining the rate of development. For example, in Bangladesh, investment picked up to a level and then was caught up in inertia to remain stagnant. A conspicuous example is the case of the banking sector and the capital market wherein plundering and breakdown of discipline have led to perpetual fragility.

SDG 16, an addition to the package, is about institutions and governance. Institution is as important a factor in ensuring growth as are sound economic fundamentals. Post-colonial Bangladesh is being run by a continuing legacy of civil and military bureaucrats as well as the nouveau riche, who are thriving through primitive accumulation of capital. For this they prefer absolute hold on power. So, the political class, the different shades of bureaucracy, and the businesses, in most cases come together to procure and secure their wealth by using or abusing power. Thus, the drive for primitive accumulation of resources has led to formation of clientelist networks in Bangladesh in every walk of economic activity. The never-ending urge for primitive accumulation of capital has led the ruling elite to justify this comical slogan of "development first, democracy later." A lack of action for political freedom can only multiply human misery and intensify law and order breakdown, leading to the rise of extremism and destabilisation.

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As regards equality, inequality in terms of income and access to resources, rural-urban divide and male-female gap is conspicuous and increasing faster than before. The benefit of productivity growth is being enjoyed mostly by the owners of non-labour inputs—the richer segment of the society. The rate of reduction in poverty has slowed down. Most strikingly, there is little discussion on wealth inequality. Thus, advantages of birth, for instance, harbour a culture in which work and efforts are discouraged. Lack of institutions has worsened inequality. Bangladesh is being run by intermediate classes, who are interested only in securing wealth by any means. Broadly, the intermediate classes comprise rich and middle-class peasants, urban petty bourgeoisies and educated middle classes, who have greater degree of organisational ability than those of workers, poor peasants and the unemployed illiterates. This also brings home an absence, and crisis in formation, of elite or bourgeoisie.

The SDGs talk about poverty, inequality, job creation and economic growth. Growth does not automatically reduce poverty. Nowhere is the compromised nature of the SDGs more evident than in Bangladesh's measurement of extreme poverty, which they measure at only USD 1.25/day. If the state wants to claim to have moved from least developed country to a developing country, and if people are to meet their basic needs as outlined in the Universal Declaration of Human Rights, which is also the spirit of the war of liberation—equality, human dignity and social justice—they need closer to USD 5 per day.

The macroeconomic setting is faced with a number of challenges. The rates of savings and investment to the GDP have remained stagnant over the years and the gap between savings and investment has assumed an increasing trend lately, suggesting that the macroeconomic strategies of the government fall short of converting the savings into investment, resulting in large amount of capital flight. The rates of domestic and national savings to the GDP have also declined. The real sectors of Bangladesh have been burdened with three major problems.

First, contraction in the growth of the agriculture sector has been higher in the last few years. In addition, lack of any significant breakthrough in agriculture as regards innovation and technological advancement in the post-green revolution period, absence of product diversification in manufacturing and consequential lack of creation of employment opportunity in the sector are causes of concern.

Second, the average growth rate of industry has been lower in the past five years compared to those of the preceding five years. In addition, the sector is still mired in excessive concentration by a single product, with fewer export destinations while import is heavily dependent on two countries.

Third, political uncertainty and poor infrastructure have been suppressing investment demand. The private investment demand has been depressed due to lack of business confidence owing to political uncertainty and inadequate availability of infrastructure primarily due to reduced public investment, as the government has been diverting resources to service non-development expenditure, including payment to employees and debt servicing. The import prices have been rising more rapidly than the export prices of Bangladeshi goods, leading to a current account and balance of payment deficit. The external sector may in future be also exposed to shocks as borrowing by the private sector from external private sectors has increased in massive proportion and the government has also resorted to high interest-bearing short-term loans.

Of late crisis in the banking sector has made the financial sector in Bangladesh the worst among the emerging Asian countries reflecting poor risk management ability of the central bank, the Bangladesh Bank (BB). The recent heist again shook the financial system and the economy. The ongoing crisis in the banking sector, mainly due to increased default loans, reflects the institutional weakness of the financial system and causes increased cost of fund and shortfall in capital of banks. The government recapitalises the shortfall with taxpayers' money instead of correcting the faults of the institutions, which not only increases the burden on taxpayers but also causes a loss to the economy. Besides being a dysfunctional financial sector, it is also mired in high rate of interest rate and high interest rate spread—the difference between the lending and the deposit rates. The goal of financial inclusion remains rhetorical.

Share market scam in 1996 and 2010 caused a huge loss to the small and medium investors and many became penniless. The gloomy situation has been continuing as investors have lost their confidence of investing in the market. The problems of the capital markets in Bangladesh are structural. There are syndicates colluding with each other to artificially influence the prices resulting in huge profits for them at the expense of the average investors who put in their hard-earned lifetime savings. The Securities and Exchange Commission (SEC), which is supposed to regulate, seems to favour the syndicates, which primarily consist of high net worth individuals and the stock exchange members, resulting in an "artificial demand-driven market."

The Bangladesh government has continued with a deficit budget, yet the key issue is that such deficit has not been meant to augment multiplier effects in the economy, rather has financed economic rent as opposed to efficient allocation for infrastructure to remove supply side constraints. This continuation of deficit as consequential to distribution of economic rents—any payment to a factor of production in excess of the cost needed to bring that factor into production—to its political cohorts. In the wake of the ever-increasing demands for the economic rent by its cronies, the government estimates escalated costs or repeatedly increases costs of publicly funded projects. For instance, Bangladesh spends Tk 59 crore to build one kilometre of four-lane highways whereas China and India spend Tk 13 crore and Tk 10 crore respectively.

The concept of "human dignity" of the citizens embodies a number of intrinsic meanings, denoting that an individual at least enjoys freedom. Citizenship entails an individual to be an active participant, indicating his or her political, social and economic rights. The liberals have favoured "negative freedom"—the rights of non-interference, absence of obstacles and no harm to others. Therefore, citizenship and rights go hand in hand, and are inalienable and sometimes even absolute. The fundamental crisis of the Bangladesh polity is the citizens' disempowerment. For example, there are questions: Are the citizens empowered enough that they are freely enjoying and practising the freedoms of voting, thought and conscience, speech, expression, association, assembly, and movement?

As such, the main pillars of the state, namely a functioning judiciary, an effective parliament and a civil administration to implement the political mandate for the people, given by the people to the elected representatives of the people, are getting eroded. The motive of the ruling elite is simply to have a centralised state with concentration of power. The system has become authoritarian and cannot withstand even muted dissent and public scrutiny.

The concept of social justice denotes liberation from unjust economic, political and social conditions. Are the citizens of Bangladesh receiving justice in terms of the distribution of wealth, opportunities, and privileges within the society? Does the Bangladesh state provide basic services such as education, health, housing, transportation and social security to all her citizens? Has the state been able to enact progressive taxation and regulation of markets to ensure fair distribution of wealth, equal opportunity and equality of outcome?

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Farmers continue to work tirelessly in their croplands, with innovation and intensity, without fair prices, with high input cost, and changing climatic conditions. PHOTO: PRABIR DAS