

Problems Central to Economic Policy Deregulation in Bangladesh

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The demand for the deregulation of the economy in Bangladesh has its roots in the general disillusionment over the "development state", which is by no means confined to Bangladesh alone. Such a state had been called for by Western theory of modernisation, starting from Rosenstein - Rodan¹, and has evolved everywhere in the Third World in the wake of the world economic recession of the 30s, regardless of this theoretical stand. To be sure, this process of "state interventionism" received a fillip when the countries of Asia and Africa gained independence after the Second World War; yet, this process had set in even earlier in these countries. Thus, the deregulated economies of the Third World do not necessarily turn out to be superior as a result of the crisis in which the development state finds itself. For, prior to the emergence of the development state, deregulated economies did not by any means display the dynamic tendencies which proponents of deregulation expect from a curtailment of state influence today. This connection is especially obvious in Bangladesh, since the state does not have a particularly large share in production, not even of industrial production². It is indeed true that "state" and "bureaucratic" positions in Bangladesh - both these institutions corresponding only formally to institutions going by the same name in developed, capitalist, industrialised countries - are used to loot the economy, even though the ordinary framework to be found in development states, a characteristically inefficient allocation of resources in a state "production" sector, is absent. The distinctly weak state sector, which emerged for the most part as a result of the nationalization of "enemy property" following the break-away from Pakistan in 1971, has already been privatised to a large extent since the beginning of the eighties.

1 Rosenstein-Rodan, P.N.: "Problems of Industrialization of Eastern and South Eastern Europe", in: *Economic Journal*, 53-210, 1943.

2 Yusuf, Faziul H.: *Nationalisation of Industries in Bangladesh*. Dhaka: National Institute of Local Government, 1985, pp. 30-31.

In the case of Bangladesh, there is but one relevant angle to the question: why is it that the development of market forces continues to lead to wastage, rather than growth, despite the fact that the state has gradually withdrawn from production and the presence of Western agencies for economic co-operation continues to be quite impressive?

With respect to this problem, Bangladesh is a case of major interest. Among the aid-dependent countries, Bangladesh has by far the largest population (about 110 millions). It is very densely populated, about 750 inhabitants per km², and it has extreme material conditions due to its location in the delta of the world's largest river system (Ganga Brahmaputra). In history it has been a country of immigration, sharing with other countries of immigration the value of a relatively equal distribution of land. Adherence to Islam had not been connected to the military expansion of Islamic empires, but seems to have been the free decision of peasantry, which opposed the hierarchical structures of caste in Hindu society, first through adherence to Buddhism, then to Islam. The material conditions of the country have preserved the country from Hindu "reform", as in the mountainous countries of the Himalaya (Bhutan, Tibet). Nevertheless, Bangladesh is one of the poorest countries of the world, with a per capita income of 1988 \$170. Although Bangladesh was part of the relatively developed part of the British empire in India (Bengal), this per capita income is just half of the value now achieved in India, whereas the growth rate in the last 15 years has been less than one third of India's.

Together with the much smaller countries Sri Lanka, Nepal and Jordan, Bangladesh is among the Asian countries with more than 5% of aid in GNP. The only countries, which are aid-dependent to that extent and still have a large population, are situated in Subsaharan Africa. Their historical experience is quite different from that of Bangladesh: their process of economic and social diversification has been operating much more slowly. Among the societies evolving from the sophisticated tributary modes of production of Asia, Bangladesh is the only truly aid-dependent one.

As Western recipes for deregulation are probably accepted only in aid-dependent countries and as development of Third World countries in contrast to city states) - be it of the export-oriented or import-substitution type - requires an expanding local market - Bangladesh presents rather favourable conditions for any new experiment, despite its poverty. This is probably even more so, as the country disposes of a fairly diversified sector of small-scale industrial production including even local metal-working.

The intellectual potential of the country is enormous. Development theory is quite sophisticated in the academic institutions of the country. There are brilliant discourses which integrate either Marxist progressivism or capitalist

managerial innovation, or both of them. Sometimes, it seems that these discourses serve as justification for the economic and political reality of the country, the dominance of a rent-appropriating state over the modern sector, which, in relation to the rest of the economy, is, however, weak.

The intellectually attractive degree of sophistication in manipulating development series seems to be the result of a rather successful adaptation of the Bangladeshi elite to the high degree of aid-dependence. Bangladesh is so poor but also so populous that nobody can imagine that the country might ever get into the situation of having to do without development assistance. It is less a question of whether to get aid, but how to adjust to the desires of donors and their whims for justifications for aid.

As regards two major preoccupations of donors, namely equality and decentralisation, the country even has a good record. Due to the low level of per capita income, to the departure of (Hindu) landlords after partition, and a historical tradition of low inequality of land distribution (which Bangladesh shares with other regions where the powerful had difficulties obtaining access to the surplus), income distribution is fairly equalitarian.

As the public sector expanded under the leadership of a market-oriented petty bourgeoisie which opposed foreign rule, the public sector never constituted a major element of the development strategy.

In the multitude of villages separated by numerous rivers, any attempt at centralized government was bound to be a failure. Local government reforms aiming at decentralization never ended.

Despite these favourable conditions underdevelopment is aggravating. The basic problem of the country seems to be that at the level of combining traditional techniques and available resources, even an egalitarian distribution of income does not provide an expanding market for industrial products. The remedy for poverty, namely foreign aid, even destroys the remaining market and discourages the development of a dynamic "informal" sector through an overvalued exchange rate. Aid thus provides a market for an urban formal sector through the emergence of a tiny class of urban-based rent/aid-dependent consumers who call themselves middle class.

The development problem is thus aggravated through aid, since, at the economic level, aid blocks the mobilization of productive forces through an overvalued exchange rate, and, at the political level, through the creation of a centralized state-class which is in control of aid and rent and successfully has coopted the local business class of the formal sector.

1. The concept of deregulation does not encompass all the prerequisites for market - controlled capitalist growth processes

The demand for deregulation owes its genesis to the failure of the state economic policy in most of the countries of the Third World, including Bangladesh. Specialised literature offers the following three different explanations for this failure:

- Rigid market economists refer to the lack of efficiency in allocation in terms of wrong investment decisions (wrong choice of technology, wrong choice of sectors) and lack of X-efficiency due to the absence of competition. This serves as basis for the recommendation that the state should withdraw from the economic sector, a recommendation which covers all "kinds" of states, irrespective of the economic policy objectives they pursue.³
- The newly evolved "socio-cultural" school of criticism of the state in the Third World puts forth the argument - incidentally derived from Paul Baran,⁴ the Marxian classicist of development theory - that the state as it exists in the Third World cannot pursue the goal of economic development due to the social environment in which it is embedded.⁵ The pre-eminence of the family, giving rise to nepotism and personalized rule, the absence of a clean "administration" and the predominance of patronage and clientelist relations hindered the formulation and, above all, the implementation of possible strategies of planned economic development. Since social structures cannot be transformed by civil servants and functionaries exposed to a Western type of education - for this type of education does not impart to them the selfless qualities postulated by the theory of political modernisation - the only option ultimately open to the elites is to eliminate these patterns of behaviour by demolishing cor-

3 Bauer, Peter T.: *Reality and Rhetoric. Studies in the Economics of Development*. London: Weidenfeld and Nicolson, 1984, pp. 45f. Bauer, Peter T.: *Equality, the Third World and Economic Delusion*. Cambridge, Mas.: Harvard University Press, 1981, pp. 104f. Leibenstein, Harvey: *General X-Efficiency Theory and Economic Development*. New York: Oxford University Press, 1978. Leibenstein, Harvey: *Beyond Economic Man: A New Foundation for Microeconomics*. London: Harvard University Press, 1976, p. 35.

4 Baran, Paul A.: "On the Political Economy of Backwardness", in: *Manchester School of Economic and Social Studies*, 20-1, 1952, pp. 80f.

5 Kennedy, Paul: *African Capitalism: The Struggle for Ascendancy*. Cambridge: Cambridge University Press, 1988, p. 80. Sandbrook, Richard: "Personnalisation du pouvoir et stagnation capitaliste", in: *Politique africaine*, 26, 1987, p. 17. Hyden, Goran: *No Shortcuts to Progress: African Development Management in Perspective*. London: Heinemann, 1983, p. 181.

responding institutions in the wake of the dominance of market competition.

- A third explanation, which I would like to advance here on the basis of my analysis of state-class dominated bureaucratic development societies,⁶ does not deny the existence of tendencies towards nepotism, wastage, patronage, clientalism and self-enrichment in the third World bureaucracy and state.

It also incorporates the theory of a lack of X-efficiency advanced by the first explanation. However, the expansion of state machinery and the criticised modes of behaviour, as well as the necessity of state control of investment are rooted in structural heterogeneity which has been defined as sectoral productivity differences measured in world market prices⁷: It is structural heterogeneity which constitutes an essential characteristic of underdeveloped economies. In the short term, it can only be eliminated through drastic devaluations, as a result of which the high rates of productivity in a few world market-oriented sectors would be reduced to the level of the marginal productivity of labour at full employment in the economies concerned. Low price elasticities of demand for export goods give rise to foreign exchange losses linked to the rate of exchange - just as is the case with low elasticities of production and export of new products, with this being an inevitable outcome where structural heterogeneity prevails. Such devaluations cannot therefore be effected in societies in which the modest level of investment and the high consumption of the politically dominant state-classes and their allies hinge on foreign exchange earnings. With regard to these vested interests, I would like to point out that political resistance to a programme of general deregulation is greater than would be the case with a modified economic policy objective combined with selective deregulation, whereas politically it can serve the purpose of splitting the ruling state-classes and mobilising support from the un-

6 Elsenhans, Hartmut: *Abhängiger Kapitalismus oder bürokratische Entwicklungsgesellschaft. Versuch über den Staat in der Dritten Welt*. Frankfurt: Campus, 1981. Elsenhans, Hartmut: "Die Staatsklasse/Staatsbourgeoisie in den unterentwickelten Ländern zwischen Privilegierung und Legitimationszwang", in: *Verfassung und Recht in Übersee*, 10-1, 1977. Elsenhans, Hartmut: "Zur Rolle der Staatsklasse bei der Überwindung von Unterentwicklung", in: Schmidt, Alfred (ed.): *Strategien gegen Unterentwicklung. Zwischen Weltmarkt und Eigenständigkeit*. Frankfurt: Campus, 1976, pp. 250-265. Elsenhans, Hartmut: "Capitalisme d'Etat ou société bureaucratique de développement", in: *Etudes internationales*, 13-1, 1982. Elsenhans, Hartmut: "Rente, strukturelle Heterogenität und Staat: Entwicklungsperspektiven der Staatsklasse in der Dritten Welt", in: *Journal für Entwicklungspolitik*, 4, 1986. Ashoff, Guido: "Rent-Seeking: A New Concept in the Economic Theory of Politics and the Debate on Development Theory", in: *Economics*, 40, 1989, pp. 20-25, 30-35.

7 Elsenhans 1981, p. 45.

derprivileged. In such a strategy, satisfactory growth rates can be achieved even in the short term through an enhanced utilisation of available resources.

The measures recommended by the World Bank and the International Monetary Fund⁸ to induce structural adjustment aim at reducing imports (and with that the balance of trade deficits), increasing the level of efficiency by checking consumption and enhancing entrepreneurial profits (in the wake of deregulation) as *the* mode of appropriation of the economic surplus product from which productive investment is more likely to be forthcoming than from state budgetary revenue. In order to avert a misplaced controversy, I would like to stress at this point that in many cases the measures called for (such as retrenchment of unproductive staff expenses in administration) are not controversial.

On the basis of four problem areas, I would like to show how undifferentiated the above-mentioned programme measures are and how unlikely they are to yield the expected results due to their hardly taking into account the economic and social realities of the Third World. They will not therefore lead to dynamic market economies, but rather to the rule of oligarchies centralised outside the state apparatus, a phenomenon which has historically preceded the emergence of bureaucratic development societies in the Third World. This argument is based on my analysis of the social prerequisites for a capitalistic mode of production. It can be distinguished from the prevailing mode in that, apart from the usual prerequisites such as the existence of markets for goods and factors of production, the prevalence of law and order etc., it stresses the need for a balance of power between the surplus product - appropriating sections and the "working" classes favourable to the latter, in which case the surplus product can *only* be appropriated as profit (and not in any other form), making net investment the determining factor for appropriation.⁹ The rate of return on net investment in turn depends on the expansion of mass demand for standardised, simple and machinemade goods.

8 Streeten, Paul: "Structural Adjustment: A Survey of the Issues and Options", in: *World Development*, 15-12, 1987, pp. 1469-1482. Shams, Razul: "The World Bank's Structural Adjustment Loans: A Critique", in: *Intereconomics*, 23-5, 1988, pp. 208-211. Körner, P./Maas, G.: *Im Teufelskreis der Verschuldung. Der Internationale Währungsfond und die Dritte Welt*. Hamburg: Junius, 1984, pp. 193ff. Stewart, Frances: "Should Conditionality Change?", in: Kjell, Havnevik J. (ed.): *The IMF and the World Bank in Africa*. Uppsala: Scandinavian Institute of African Studies, 1987, p. 35.

9 Elsenhans, Hartmut: "Grundlagen der Entwicklung der kapitalistischen Weltwirtschaft", in: Senghaas, Dieter (ed.): *Kapitalistische Weltökonomie. Kontroversen über ihren Ursprung und ihre Entwicklungsdynamik*. Frankfurt: Suhrkamp, 1979. Elsenhans, Hartmut: "Rising Mass Incomes as a Condition of Capitalist Growth: Implications for the World Economy", in: *International Organization*, 37-1, 1983. Elsenhans, Hartmut: "Egalitarisme social comme condition du développement économique", in: *Les Cahiers du CREA*, 7, 1987. Elsenhans, Hartmut: "Der Mythos der Kapitalintensität und die notwendig falsche Tech-

According to this Keynesian view, it is not argued that it was the state itself which has guaranteed a sufficient level of effective demand by utilising the instruments described in Keynes' works. Rising mass incomes have been pushed through mainly by the social struggles of labour. This method is possible only to a limited degree in today's underdeveloped countries¹⁰ as economic flexibility is low, especially because of the lack of a local investment goods production. Already in the case of today's industrialised world, mass consumption was extremely important for triggering off the invention of machinery (e.g. totally new conceptions of machinery for large batch production of bicycles and sewing machines at the end of the 19th century¹¹) and machinery specialisation (the larger the production run in which a given machinery is used, the greater the possibility of the usage of productivity - increasing special machinery¹²). For today's underdeveloped world, the high input content of the consumption from higher incomes (small production series, complex technology), in addition, adds to the requirement of egalitarian distribution for local machinery production. Above all, such a pattern of distribution would dynamise the so-called informal sector and allow for more market regulation.

On the basis of this analysis which I do not intend to pursue here, the following inferences can be made:

- Deregulation in structurally heterogeneous economies can only partially lead to an increase in profit vis-à-vis other forms of surplus product appropriation.
- Providing relief to the state economic policy by resorting to instruments of globalist intervention is possible only under certain conditions.

nologiewahl der Entwicklungsländer", in: Kohler-Koch, Beate (ed.): *Technik und internationale Entwicklung*. Baden-Baden: Nomos, 1986, pp. 267-274.

- 10 Bitar, Sergio: *Transición, socialismo y democracia. La experiencia chilena*. Mexico: Siglo Veintiuno, 1979, p. 259. Müller-Plantenberg, Urs/Hinkelammert, Franz: "Condiciones y consecuencias de una política de redistribución de ingresos", in: *Cuadernos de la realidad nacional*, 2, 1973, p. 225. Sideri, Sandro: "Introduction", in: Sideri, Sandro (ed.): *Chile 1970-73: Economic Development and its International Setting. Self-Criticism of the Unidad Popular Government Policy*. The Hague: Martinus Nijhoff, 1979, pp. XIII-XXIII.
- 11 Mommertz, Karl Heinz: *Vom Bohren, Drehen und Fräsen. Zur Kulturgeschichte von Werkzeugmaschinen*. Munich: Deutsches Museum, 1979, p. 121.
- 12 Freyberg, Thomas von: *Industrielle Rationalisierung in der Weimarer Republik*. Frankfurt: Campus, 1989, p. 59. Barth, Ernst: *Entwicklungslinien der deutschen Maschinenbauindustrie von 1870-1914*. Berlin: Akademie, 1973, p. 63. Schlesinger, Georg: "Die amerikanischen Werkzeugmaschinen ausstellungen in New Haven und Boston", in: *Werkstatgeschichte*, 19-1, 1925, p. 48.

- The automatic mechanism of a tendency which politically elevates the lower classes via the growth process is restricted (in consequence of which a growth-conducive distribution would be effected).
- The absorption of the labour force into the modern sector cannot be achieved.

From a Keynesian macro-economic point of view, profits and positive profit rates are the outcome of the costs of net investment (and not of its productivity). Investment may very well be the result of projected rates of profit and, thus, of low factor cost estimates, but its realisation hinges on a demand backed by purchasing power: in the long run, this cannot be increased by merely stepping up entrepreneurial demand for investment goods.¹³ Positive rates of profit accruing from net investment are the outcome of income effects based on the production of investment goods. To the extent it is true that - at least in the case of modern technology such as is required for the manufacture of modern consumer goods to meet the demand from high-income groups - the countries of the Third World suffer from comparative cost disadvantages (and, consequently, from absolute cost disadvantages as a result of exchange rates reflecting the level of productivity in their main export sectors), it must necessarily follow that deregulation alone will not lead to an increase in investment goods production. Hence, entrepreneurial profits can only rise to the extent that profits from export can no longer be appropriated by the state. Rising rates of profit in established export sectors as against low rates of profit in import-substituting or potentially new export sectors must necessarily lead to production expansion in the old export sectors. If price elasticities are low, there will be, *inter alia*, a fall in price against which both the private entrepreneur and the state will seek to protect themselves through export controls and other interventionary mechanisms. Here, special reference must be made to state regulation in successful export-oriented economies such as Singapore or Hong Kong¹⁴. They go to prove that, despite a high level of commitment to the market economy, rents are defended in the export sector.

The prerequisite for the efficacy of instruments of globalist intervention, namely fiscal and monetary policy, is an indigenous investment goods production or the integration into a regional economy in which changes in the local factor costs lead to a quick adjustment in the job situation. Monetary

13 Elsenhans 1986, *Mythos*, pp. 271-273.

14 Morkre, Morris, E.: "Rent-Seeking and Hongkong's Textile Quota System", in: *The Developing Economies*, 17-1, 1979. Holtgrave, Wilfried: *Industrialisierung in Singapur. Chancen und Risiken industrieorientierter Spezialisierung*. Frankfurt, Campus, 1987, pp. 70-78.

policy has an impact not only on the level of investment due to investment financing having been rendered more expensive, but also on the level of investment goods production and, consequently, on the level of employment in investment goods production and, finally, on the labour markets themselves. Though the instrument of monetary policy can be employed to curb inflationary trends in structurally heterogeneous economies, it is rarely effective in stimulating investment activity. In economies having no local investment goods production, the latter primarily depends on access to foreign exchange rather than to credit. In this case, a deregulation of access to foreign exchange assumes central importance. Where local factors of production, and with this the currency itself, are overrated, the demand for foreign exchange exceeds the supply accruing from export and aid (because imported technology holds out opportunities for productivity increases and profits accruing therefrom vis-à-vis competitors). In such a case governmental rationing of foreign exchange is the inevitable outcome even, and, especially, when the private sector is to be expanded. Fiscal policy can be used effectively to step up demand, only when the rising demand can be met by indigenous production in increasing measure, at least at declining rates of exchange. If capacity expansion hinges on the import of investment goods, then all the expansive effects of the fiscal policy will be of no avail. Under conditions of structural heterogeneity, monetary and fiscal policies can only work towards contraction, without being able to induce increased investment on the part of entrepreneurs. Deregulation cannot be expected to contribute to employment generation; rather, this can only be induced by the release of resources hitherto put to "inefficient" use in the state apparatus, and thereupon made available to the entrepreneur.

The balance of power between the social classes, referred to in my analysis of the social prerequisites for capitalist growth processes, will time and again be restored in the economic cycle of capitalist economies, owing the indigenous production of investment goods - this being so even in the event of unemployment caused by economic factors. This highly cyclic nature of the demand for investment goods, often decried as a characteristic of capitalism, constituted an important element in assuring the necessary balance of forces for long-term capitalist growth. True, investment presupposes real wages which increase both in the medium and long term. On the other hand, if real incomes do not increase and there is no attendant market expansion, a slump in investment activity will follow resulting in possibly negative net investment. But if investment goods production has been internalised, a boom in investment goods will set in at some point of time, due to physical and technical obsolescence determined by capital-output ratios and technological advance-

ment. Even though investment is only made in technologies which, during their life-span, reduce overall demand for labour in relation to future output levels vis-à-vis known technologies, the time-bound concentration of such technologies in the economic cycle will lead to full employment and to a strengthening of the workers' bargaining power. Linked with the nominal wage illusion favourable to the worker (as compared to prices, rigid nominal wages made their appearance in the economic crises of the 19th century)¹⁵, one can detect here a fundamental mechanism underlying the guarantee for growing markets observable in the capitalist systems of the 19th century. As long as the local production of indigenous investment goods remains uncompetitive, one cannot reckon with this mechanism for safeguarding a growth-conducive income development. In capitalism, profit and mass consumption are in "solidarity" with each other. The workers can push through real wage increases only to the extent that the productive apparatus allows for a rising level of consumption so that increases in income beyond full capacity utilisation in consumption goods production are not possible. Increases in monetary terms lead to price rises and higher rates of profit and trigger off investment. In so far as they increase their level of net investment in line with their evaluation of outlets, entrepreneurs can effect a change in income distribution to their benefit, with limits imposed by the monetary policy of the central bank. Where structural heterogeneity prevails, a rise in consumption only signifies a reduction in the quantity of foreign exchange available for investment.

The level of funds which, realistically speaking, are likely to be made available for investment following deregulation will not suffice to provide employment for all available labour. In this connection, it is necessary to draw attention to one last problem which remains unaffected by deregulation. During the transition to capitalist conditions of production/market control, many economies, particularly of course that of Bangladesh, are characterised by a low mean productivity of labour. The surplus labour theories¹⁶ assume that, in the event of a near-zero, marginal productivity of labour in the traditional sector, investors in the modern sector with a permanent supply of cheap labour will gradually expand the modern sector through investment.

15 Keynes, John M.: "Relative Movements of Real Wages and Output", in: *Economic Journal*, 49-193, 1939, p. 35. Habakkuk, Hrothgar J.: "Fluctuations and Growth in the 19th Century", in: Robertson, H.M./Kooy, M. (eds.): *Studies in Economics and Economic History*. London: Macmillan, 1972, p. 275. Rosenberg, Hans: *Die Weltwirtschaftskrise von 1857-1859*. Stuttgart: Kohlhammer, 1934, p. 185. Richardson, Henry: "Real Wage Movements", in: *Economic Journal*, 49-195, 1939, pp. 431, 441.

16 Lewis, William A.: "Economic Development with Unlimited Supply of Labour", in: *Manchester School of Economic and Social Studies*, 22-4, 1954, pp. 174-190. Fei, John C.H./Ranis, Gustav: *Development of a Labor Surplus Economy. Theory and Policy*. Homewood, Ill.: Irwin, 1964, pp. 30-35.

But as a result of a lack of sufficient demand and the level of investment being determined by the availability of foreign exchange, the dynamics described above cannot evolve; rather, high entrepreneurial incomes will either be consumed as a result of the monopoly status of the entrepreneurs or skimmed off by the state. As against this, the other trend delineated in the surplus labour theories¹⁷ has manifested itself in the increasing shedding of labour. If average productivity of labour is low, the marginal product can be inferior to the subsistence level. Labour is shed. Real wages of employed labour remain low. Although high profits in some production lines could be used for increasing the productivity of marginal labour¹⁸, required outlets are insufficient due to low real incomes. The solution of 16th century England was to reduce surplus available for investment and to subsidize labour, the product of which was lower than the minimum wage required for subsistence (Poor Laws).¹⁹ Even in cases where as a result of the Green Revolution - comparable to the development in England during the Industrial Revolution - new employment is being generated in the agricultural sector even in South Asia, the abundant supply of labour prevents real incomes from rising and full employment from being attained.²⁰ Since, on this premise, the incomes of private households increase with the number of able-bodied members as per random reckoning (at least on the basis of other underdeveloped countries), what results is the micro-economically rational strategy of opting for a large number of children.²¹

Thus, the mechanism of growth, characteristic of capitalist economies and rooted in the improvement of the living conditions of the masses, cannot possibly be activated by forms of economic regulation alone.

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- 17 Georgescu-Roegen, Nicholas: "Economic Theory and Agrarian Economics", in: *Oxford Economic Papers*, 12-1, 1960, pp. 32-40.
- 18 Cooper, Charles: "Sectoral Capital Intensities", in: Stewart, Frances/James, Jeffrey (eds.): *the Economics of New Technology in Developing Countries*. London: Frances Pinter, 1982, p. 28. Shetty, Majur Ch.: *Small-Scale and Household Industries in a Developing Economy. A Study of Their Rational Structure and Operative Conditions*. Bombay: Asia Publishing House, 1963, p. 43. Tripathy, R.N.: "Criteria for the Choice of Investment Projects in Development Planning", in: *Indian Journal of Economics*, 44-176, 1964, pp. 69ff. Sen, Amartya K.: "Some Notes on the Choice of Capital Intensity in Development Planning", in: *Quarterly Journal of Economics*, 71-4, 1957. Galenson, Walter/Leibenstein, Harvey: "Investment Criteria, Productivity and Economic Development", in: *Quarterly Journal of Economics*, 69-3, 1955, pp. 358ff.
- 19 Elsenhans, Hartmut: "Englisches Poor Law und egalitäre Agrarreform in der Dritten Welt. Einige Aspekte der Theorie, daß Wachstum historisch die Erweiterung des Massenmarktes erfordert", in: *Verfassung und Recht in Übersee*, 13-4, 1980.
- 20 Breman, Jan: *Of Peasants, Migrants and Paupers. Rural Labour Circulation and Capitalist Production in West-India*. New Dehli: Oxford University Press, 1985, p. 445.
- 21 Boukhobza, M'hammed: *Ruptures et transformations sociales en Algérie*. Algier: OPU, 1989, pp. 403-405.

Early industrializing Europe did not differ from today's Third World due to the amount of investable surplus - which was considerable not only in the tributary modes of production in Asia and Latin America but also in the communitary modes of production of Africa²² -, nor due to the implementation of property rights,²³ which had been achieved at least in Asia, but due to the orientation of most of its production to mass consumption.²⁴

2. The problems of exchange rate equilibrium

Western development aid, far from assisting Bangladesh's economy to attain full employment, will only prove a hindrance as long as there is no channelisation of these resources into projects geared to satisfying mass needs. In Bangladesh, the inability to diversify the economy, as maintained in the theory of structural heterogeneity which accordingly focuses on extremely high

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- 22 Chaponnière, Jean-Raphaël: *La puce et le riz: Croissance dans le sudest asiatique*. Paris: Armand Colin, 1985, p. 30. Jacobs, Norman: *Patrimonial Interpretation of Indian Society. Contemporary Structure and Historical Foundations*. New Delhi: Chanakya Publications, 1989, p. 36. Davey, Brian: *The Economic Development of India*. Nottingham: Spokesman Books, 1975, p. 30. Monnier, Laurent: "Note sur les structures politiques de l'Ancien Royaume de Kong avant l'arrivée des Portugais", in: *Genève-Afrique*, 5-1, 1966, p. 20. Koponen, Juhani: *People and Production in Late Precolonial Tanzania. History and Structures*. Helsinki: Finnish Society for Development Studies, 1988, pp. 388f.
- 23 Jacobs 1989, p. 36. Saletore, R.N.: *Early Indian Economic History*. London: Curzon Press, 1975, pp. 467-479. Goody, Jack: *Technology, Tradition and the State in Africa*. London: Oxford University Press, 1971, p. 51. Issawi, Charles: *The Economic History of the Middle East 1800-1914*. Chicago: University of Chicago Press, 1966, p. 9
- 24 Flinn, M.W.: "Trends in Real Wages 1750-1850", in: *Economic History Review*, 28-3, 1975, p. 409. Botham, F.W./Hunt, E.H.: "Wages in Britain During the Industrial Revolution", in: *Economic History Review*, 40-3, 1987, pp. 380-399. Tunzelmann, S.N.: "Trends in Real Wages 1750-1850 - Revisited", in: *Economic History Review*, 32-1, 1979, pp. 33-49. For Germany: Engelsing, Rolf: "Probleme der Lebenshaltung in Deutschland im 18. und 19. Jahrhundert", in: *Zeitschrift für die gesamte Staatswissenschaft*, 126-2, 1970. Abel, Wilhelm: *Stufen der Ernährung*. Göttingen: Vandenhoeck & Ruprecht, 1981, p. 68. Howard, Earl Dean: *The Cause and Extent of the Recent Industrial Progress of Germany*. Cambridge: Cambridge Houghton Mifflin, 1907, p. 9. For the USA: Williamson, Jeffrey G.: "American Prices and Urban Inequality", in: *Journal of Economic History*, 36-2, 1976, p. 333. Lebergott, Stanley: "Wage Trends 1800-1900", in: Parker, William (ed.): *Trends in the American Economy in the Nineteenth Century. Studies in Income and Wealth*. Princeton, NJ.: Princeton University Press, 1960, p. 493. Rothbarth, Erwin: "Causes of the Superior Efficiency of USA Industry as Compared with British Industry", in: *Economic Journal*, 56-233, 1946. Compare to Asia and Africa: Moreland, William H.: *The Agrarian System of Moslem India: a Historical Essay with Appendices*. Neu Delhi: Oriental Books Reprint Corporation, 1968, pp. 202-207. Moosvi, Shireen: "Share of the Nobility in the Revenues of Akbar's Empire 1595-96", in: *The Indian Economic and Social History Review*, 3-3, 1980, p. 341. Raychaudhuri, Tapan: "Mughal India", in: Habib, Irfan/Raychaudhuri, Tapan (eds.): *India - Economic Conditions*. Cambridge: Cambridge University Press, 1982, p. 266. Iliffe, John: *The African Poor: a History*. Cambridge: Cambridge University Press, 1987, p. 249.

"exchange rate equilibria", is only exacerbated by Western aid. The fixing of the exchange rate equilibrium constitutes the bone of contention between a point of view which does not consider structural heterogeneity, and this analysis. To start with, the rate of exchange appears to be in equilibrium when there is no discrepancy between the free exchange market rate and that fixed by the government. The approximation of the administered rate to the black market rate and the adjustment resulting therefrom are the measures generally resorted to. However, in case of unemployment, even this rate is too high since there is obviously no equilibrium between the demand and supply of labour. This imbalance is bound to manifest itself - on account of structural heterogeneity - because of the sectoral differentials of productivity of the factors of production.

In case of structural heterogeneity, the emergence of rent - i.e. differences in income for identical quantities and qualities of factors in different employments - is inevitable. It can be shown that this is the result of avoided devaluation which would make marginal labour competitive in new export or internal market production lines, but with quantity effects so low in relation to deteriorating terms-of-trade that overall foreign exchange availability decreases.²⁵ This is the result of low price elasticities of demand for already exported products and low elasticity of local production in relation to the exchange rate, both of which are only aspects of the slender capacity of underdeveloped economies to adapt to changing market conditions, which in turn is due to structural heterogeneity.

In the case of Bangladesh, Western aid amounting to just 9.3% of the GNP causes the exchange rate to exceed the level at which it would settle according to productivity and in the absence of aid. Thus, all entrepreneurs complain about the high costs in Bangladesh as compared with India; this is in fact the natural outcome of the overrating of the Bangladeshi taka vis-à-vis the Indian rupee. The external value of the taka, which benefits those who directly or indirectly obtain their income from development aid, is a long-term instrument for hindering the development of small and medium scale industry (both within and outside the formal sector) which might compete with Indian industrial products. Deregulation at extremely high rates of

25 Elsenhans, Hartmut: "Handlungsspielräume für reformistische Entwicklungsstrategien", in: Evers, Hans-Dieter/Senghaas, Dieter/Wienholtz, Huberta (eds.): *Auf dem Weg zu einer Neuen Weltwirtschaftsordnung? Bedingungen und Grenzen für eine eigenständige Entwicklung*. Baden-Baden: Nomos, 1983, pp. 143-147. Elsenhans, Hartmut: *Egalitarisme social et critique des modes de production dans la périphérie au lieu d'antiimpérialisme et critique des rapports économiques entre le Centre et la Périphérie*. Paris: Université de Paris, Institut d'Etudes du Développement Economique et Social, 1981, pp. 58-63. Elsenhans, Hartmut: "Zu reich für alternative Entwicklungsstrategien - Das Dilemma der Dritten Welt", in: *Schweizerische Zeitschrift für Soziologie*, 12-1, 1986, pp. 155-161.

exchange results in a small section of Bangladeshis gaining cheaper access to Western consumer goods than Indian consumers - these goods then being exchanged by them in India for mass consumption goods for the Bangladeshi market, these being cheaper than those locally produced.

The excessive overvaluation of the Bangladeshi currency can be explained by establishing an analogy between this situation and an economy with commodity rent. To be sure, Bangladesh has no oil, but it can sell immaterial property such as share certificates for moral satisfaction. Western countries acquire these certificates by despatching aid disbursements to Bangladesh via public or private development agencies. As in the case of an oil rent, the exchange rate, evolving on the basis of this export sector which is highly productive as compared to the rest of the economy, gives rise to the so-called "Dutch disease". This "Dutch disease" is so pronounced in Bangladesh that governmental organs (such as the Ministry of Planning, Planning Commission etc.), which are entrusted with the task of promoting the private sector, are not even acquainted with the producers in the so-called informal sector who are handicapped by the high rate of exchange. There is a dearth of surveys on the informal sector - both in Dhaka and in the rural areas - which, as compared to other countries, is quite significant, especially in the area of metal working which in turn is important for diversification.²⁶ The private industry which is shown to the aid agencies belongs to the formal sector and appears to expect but little from the expansion of the internal mass market; rather, it seems to sustain itself on import licences, export promotion or concealed income transfers.

Since the private sector in several branches of industry is hardly competitive at the current rate of exchange, a private industry which actually exists in the formal sector has no other option but to live off additional incomes from such sources.

26 Haque, Shamsul/Hussain, Zahid: *Cottage Industries of Bangladesh. Potential for Development*. Dhaka: Institute of Business Administration, 1984. Qadir, S.A.: *Social Science Research in Bangladesh*. Dhaka: National Institute of Local Government, 1987, pp. 83ff. Bakht, Zaid: *Appropriate Technology in the Rural Industries Sector of Bangladesh*. Dhaka: Bangladesh Institute of Development Studies, 1987, pp. 9ff. Virmani, Arvind: *Evaluation of Financial Policy. Credit Allocation in Bangladesh*. Washington: World Bank, 1984, pp. 27ff. Hossain, Mahabab: *Credit for the Rural Poor. The Grameen Bank in Bangladesh*. Dhaka: Bangladesh Institute of Development Studies, 1984, p. 121.

3. Where development aid continues, deregulation calls for planning

Development aid to Bangladesh is rooted in the consideration that poverty exists in this country. From the economic angle, it does not have the effect of a cost-escalating rent as long as it benefits those who, on account of their low productivity level, cannot be employed. Subsidies to the poor whose employment at subsistence level is not possible due to extremely low productivity (marginal product below cost of subsistence) do not increase real wages as long as the rate paid to the poor does not exceed subsistence costs. The actually practised distribution of the aid to labour paid above subsistence level however increases real wages. The economically reasonable utilisation of rent rests on

- its trickling down to the poor
- a rate of exchange which does not adversely affect the somewhat less poorer sections of the population who can be integrated into the productive workforce.

The objective of inducing a higher level of development in the private economy can only be realised if no wrong signals are sent out by development aid to private entrepreneurs in potential or actual areas of production. This can be achieved only if development aid trickles down - either directly as income transfer or indirectly as an improvement of infrastructural conditions of production - to that section of the population caught in the trap of a marginal productivity which is lower than the subsistence income. This trickle-down can only be effected through non-market-controlled actors such as the state or NGOs, or even private enterprises which would then have to be subsidised.

On this basis it may be concluded that, while the privatisation and deregulation of the economy of Bangladesh should, on the one hand, aim at protecting the private-producing sector from state intervention, they must at the same time be linked with an effective regulation of the process of allocating aid, as long as aid continues to be disbursed.

Should aid be committed to the objective of eradicating poverty arising from a marginal productivity which is too low as compared with the subsistence income, then the criterium of the investive character of work performed ceases to be important for the deployment of aid. Investment is indeed sought while disbursing aid, for, going by generally believed basic "realities" in capitalist industrialised countries, investment generates employment, and, consequently, income. In case of the typical poverty trap, investments pay off for those types of demand for which productive capacities already exist or

for which an expansion of capacities is not desirable; on the other hand, investments do not create sufficient employment and demand among the poor. Profitable investment in such areas as meet the demands of the poor is therefore not induced, since the latter have no income. Income transfers to the poor combined with programmes to promote small scale industries in rural areas would first of all ensure the viability and growth of these sectors with considerable employment effects accompanying such growth. Here, a distinct parallel can be drawn to the English Poor Laws.

Such a channelisation of rent cannot be accomplished by a policy of creating the framework of an operating market alone. Such a policy must be linked with a policy framework which delineates the objectives for consumption level, consumption structure and the employment level of the poorer sections of the population, in order to enable the allocation of aid for consumptive and investive purposes. Here the following mechanism must be mentioned: the consumption expected to result from income transfers to the poor leads to an increase in the number of jobs offered, to a demand for simple investment goods (to be specified according to type) to a demand for input and, thus, ultimately to further demand effects resulting in the gradual absorption of the poor.

For Bangladesh the following relation, observed elsewhere as well, is relevant: Shifting purchasing power from high income to low income consumers dynamizes that part of small and medium-scale industries for which skills and technologies are locally available or accessible at relatively low costs as compared to the demand from high incomes.²⁷

The coherent planning required for such an objective cannot be expected of the state apparatus of Bangladesh. The inflow of aid has created structures analogous to those of rent appropriation. Even while soliciting aid, the accent does not lie on incorporating projects in the overall scheme of changing the structure of the Bangladeshi economy, but rather on the volume of aid disbursed. The External Resources Division is therefore organised on a donor group basis. Government officials are expected to be acquainted with donor preferences and take these into account, in order to secure as large a volume of funds as possible. They are not required to assess the economic viability of the projects planned. At all other levels, the typical behaviour of maximising influence, prestige and income, as represented in the theory of state-classes,

27 Haque/Hussain 1984, p. 1. Qadir 1987, p. 63. Alamgir, Mohieddin K.: *Development Strategy for Bangladesh*. Dhaka: Center for Social Studies, 1980, pp. 426f. Vylder, Stefan de: *Agriculture in Chains. Bangladesh: A Case Study in Contradictions and Constraints*. London: Zed, 1982, p. 122. *Bangladesh - Country Study and Norwegian Aid Review*. Fantoft: Chr. Michelsen Institute, 1986, p. 132.

can be observed.²⁸ This pattern of behaviour obliterates the economic rationality of development programmes. In the case of Bangladesh it may be added that, as a result of the Western preference for deregulation, this bureaucratic struggle for funds is carried on without so much as a reference to primary economic goals, as such goals are not even formulated in economic development programmes. Attempts at coordination unfortunately do not serve the formulation of such integrative goals, but rather the assertion of the individual interests of individual set-ups (such as sectoral ministries) and their clients. The demand for deregulation cannot possibly effect a change in this pattern of behaviour if, as indicated earlier, the volume of aid necessitates a certain measure of non-market regulation. In discourses both in and on Bangladesh, this dilemma of non-market regulation being necessary on the one hand and not even a minimum degree of coherence being possible under the prevailing conditions on the other, leads to a discussion about the programme executors and their development priorities. The proponents of deregulation direct their criticism not at the wrong development policies of the state apparatus but at its corruptibility, on which score the state fares badly compared with the NGOs.

4. On the extent of NGO participation within the framework of a deregulation policy

Within the framework of their demand for deregulation, Western donors are increasingly backing NGOs as executors of the development measures financed by them. The rise of NGOs in Bangladesh (which currently has several thousand, depending on the definition of minimum size) has been truly breathtaking.²⁹ However, they do not necessarily reflect the generally optimistic picture painted by Western observers. Yet, in putting this picture in the correct perspective, I do not wish to belittle the achievements of the

28 O'Donnell, Charles P.: *Bangladesh. Biography of a Muslim Nation*. London: Westview Press, 1984, p. 265. Islam, Nurul: *Development Planning in Bangladesh. A Study in Political Economy*. Dhaka: Dhaka University Press, 1979, p. 236. Hasnath, Syed A.: "The Practice and Effect of Development Planning in Bangladesh", in: *Public Administration and Development*, 7-1, 1987, pp. 62-68. Ahamed, Emajuddin: "Dominant Bureaucratic Elites in Bangladesh", in: Khan, Mohammad/Zafarullah, Habib: *Politics and Bureaucracy in a New Nation*. Dhaka: Center for Administrative Studies, 1980, p. 167.

29 Blair, Harry W.: "Participation, Public Policy, Political Economy and Development in Rural Bangladesh 1958-1985", in: *World Development*, 13-12, 1985, p. 1242. Chadha, Skylark: *Managing Projects in Bangladesh. A Scenario Analysis of Institutional Environment for Development Projects*. Dhaka: University Press Limited, 1989, p. 201. Alamgir, Farooque: "NGOs: Lack Direction and Engaged in Unhealthy Competition and Duplication", in: *Courier*, 18-24, 1989.

NGOs. The latter have succeeded in politically mobilising the rural poor and boosting their self-confidence. This is no mean achievement in a rural society essentially characterised by an extremely low degree of solidarity in the villages.³⁰

Contrary to general opinion, successful NGOs in Bangladesh did not emerge as a result of spontaneous association or by virtue of the creative ability of the rural poor to organise themselves. Nor are they run by the rural poor. Compared to the rest of the Third World, NGOs sprang up in Bangladesh with amazing speed because there is virtually no efficient state administration in the rural areas.³¹ To a certain extent, they are the outcome of the readiness on the part of the bureaucratic and state machinery to control the rural sector through an extremely loose administrative network which accepts the clout of the established and somewhat "richer" sections. In Bangladesh, NGOs are free to take over the role of the traditional agrarian bureaucracy from government, in a manner which sets the Bangladeshi situation apart from the rest of the Third World.

The main spheres of activity of the NGOs are indicative of their quintessential character. Grameen Bank, Proshika and BRAC, to mention but three of the larger NGOs, specialize in the granting of loans.³² They do not demand any securities. The farmers are, however, required to deposit their harvested crops in the warehouses of these organisations. If they refuse to pay back the loan granted to them, they stand to lose their harvests. These organisations bear a striking resemblance to state institutions of agrarian politics which had existed during colonial rule at least in Subsaharan Africa. Like their counter-

30 Boyce, James/Hartmann, Betsy: *A Quiet Violence*. London: Zed, 1983, p. 205. Khan, Shakeeb A.: *The State and Village Society. The Political Economy of Agricultural Development in Bangladesh*. Dhaka: University Press Limited, 1989, p. 53. Jansen, Eirik G.: *Rural Bangladesh: Competition for Scarce Resources*. Dhaka: University Press Limited, 1987, p. 3. Siddiqui, Kamal: *The Political Economy of Rural Poverty in Bangladesh*. Dhaka: National Institute of Local Government, 1982, pp. 211-218. Chowdhury, Anwarullah: *Agrarian Social Relations and Development in Bangladesh*. New Dehli: Oxford University Press, 1982, pp. XIII. Spinatsch, Markus: *Boda: Ein Dorf am Rande der Welt*. Saarbrücken: Breitenbach, 1984, p. 135.

31 Siddiqui 1982, p. 255. Jahangir, B.K.: "Nature of Class Struggle in Bangladesh", in: Ahamed, Emajuddin: *Bangladesh Politics*. Dhaka: Center for Social Studies, 1980, p. 70. O'Donnell 1984, pp. 266f. Huque, Ahmed S.: "The Politics of Local Government Reform in Bangladesh", in: *Public Administration and Development*, 5-3, 1985, p. 216. Shawkat Ali, A.M.: *Politics and Land System in Bangladesh*. Dhaka: National Institute of Local Government, 1986, p. 11. Khan 1989, p. 142.

32 Ahmed, Razia S.: *Financing the Rural Poor, Obstacles and Realities*. Dhaka: University Press Limited, 1983, p. 114. Hoque, Muzammel/Ahmed, Zia: *A Review of Microenterprise Credit Programmes in Bangladesh*. Columbus, Ohio: Ohio State University, 1989. Ray, Jayanta K.: *To Chase a Miracle: A Study of the Grameen Bank of Bangladesh*. Dhaka: University Press Limited, 1987, p. 216. Hossain 1984, pp. 3-15, 297.

parts of yesteryear, these organisations also rightly consider the repayment of loans to be their overriding objective.³³

NGOs do not compete with governmental institutions; nor do they seek to erode their influence. Even Proshika, which is considered to be more "left-wing" sets store by good relations with local and central administrative bodies. When local adversaries indulge in illegal action against local Proshika-groups, the organisation makes use of its contacts with local or central administrative units. It presents monthly report of its activities to the district governors. Staff and personnel policy changes at the highest level of administration have a significant bearing on the organisation since it has established contacts with some high-ranking officials who are favourably inclined towards it. BRAC makes regular use of its contacts with the government and stresses the fact that many of its members are former civil servants who have protected the organisation from undue bureaucratic interference. The top-level functionaries of most NGOs seems to have been recruited from bureaucratic circles.

Both the state bureaucracy and NGOs offer comparable career opportunities. A civil servant has described the basic economic consideration underlying bureaucratic membership thus: "When a person has been in service here for some time, he builds up the contacts which make him interesting for consulting firms. Such firms need these contacts with the government in order to successfully transact business. Another - though admittedly only second best - alternative is to become a member of an NGO. If a person is not qualified enough for both types of institutions, the temptation to use vital "gate-keeping" positions within the administration for bribes gets tremendous."

NGOs refuse to degrade the income of their top-level functionaries to the level of government servants holding similar qualifications. Although official surveys maintain that pay scales in NGOs are lower than those of the bureaucracy, NGO-members affirm the contrary.³⁴

Political parties are endeavouring to increase their membership by setting up their own NGOs. In this manner, NGO-activity has degenerated into an economic and political transaction.³⁵ Illegal practices of self-enrichment in-

33 Elsenhans, Hartmut: *Frankreichs Algerienkrieg 1954-1962. Entkolonisierungsversuch einer kapitalistischen Metropole. Zum Zusammenbruch der Kolonialreiche*. Munich: Carl Hanser, 1974, pp. 556-557. Beaudoux, Etienne/Nieuwkerk, Marc: *Groupements paysans d'Afrique. Dossier pour l'action*. Paris: Harmattan, 1985. Meister, Albert: *La participation pour le développement*. Paris: Edition ouvrières, 1977, pp. 17ff., 55-59.

34 Based on Association of Development Agencies of Bangladesh 1989 which quotes a study by Kamal Siddiqui, Khandker Azad Ahmed and Jamshed Ahmed in Bengali.

35 The New Nation, 4th October 1989, p. 8.

dulged in by high-ranking NGO functionaries in smaller organisations have been reported.

A best NGOs are bureaucracies which are more innovative and creative than the established state bureaucracy, as the following two quotes from a survey favourable to the Grameen Bank (GB) - reveal:

"the GB has established a bureaucracy which is relevant to the removal of rural poverty from Bangladesh. This capability by itself may not necessarily ensure the survival and growth of the GB unless its operations can meet its costs. the costs are unavoidably high, because, firstly, GB employees have to supervise the utilisation of loans closely, and, secondly, for the sake of equity, an individual can secure small loans."³⁶

"Unlike conventional state bureaucracy, the GB bureaucracy is a creative and responsive bureaucracy. It has, therefore, extended due recognition to the search of the rural poor for home and honour."³⁷

NGOs demonstrate that there are alternatives to measures totally dependent on foreign aid due to their being financed by the latter. The poor can accumulate savings and these can be mobilised.³⁸ Even foreign aid, which is required for such strategies, need not necessarily give rise to the negative consequences of "rent seeking" (this in fact applies to rent on the whole, if it is utilised intelligently.³⁹

NGOs display these characteristics since they are not assured of foreign contributions and must therefore keep up their image of clean, efficient organisations. Thus, they have grown into organisations in which committed urban Bangladeshis, who condemn the current practices of the state bureaucracy, participate.

36 Ray 1987, p. 216.

37 Ray 1987, p. 114.

38 Qadir 1987, p. 93. League of Nations: *Industrialisation and Foreign Trade*. Genf: Völkerbund, 1945, p. 70. Lampman, Robert: "Recent Thought on Egalitarianism", in: *Quarterly Journal of Economics*, 71-2, 1957, p. 254. Anell, Lars: "Growth, Resource Distribution and Aid Planning", in: Bandt, Jacques de/Mándi, Peter/Seers, Dudley: *European Studies in Development. New Trends in European Development Studies*. London: Macmillan, 1980, p. 153. Nijhawan, Inder P.: "Vicious Circle of Poverty and Saving Rates in Less Developed Countries: A Case Study of India", in: *Indian Journal of Economics*, 56-221, 1975, pp. 199-217. Byerlee, Derek/Eicher, Carl K./Liedholm, Carl/Spencer, Dunstan S.C.: "Employment-Output Conflicts, Factor-Price Distortions, and Choice of Technique: Empirical Results from Sierra Leone", in: *Economic Development and Cultural Change*, 31-2, 1983, p. 334.

39 Benachenhou, Abdellatif: "Le renversement de la problématique ricardienne des coûts comparés dans la théorie économique contemporaine", in: *Revue algérienne des sciences juridiques, économiques et politiques*, 8-4, 1971, pp. 916-929.

However, an attempt to channelise the greater proportion of foreign aid through NGOs would necessarily have an adverse effect on the maintenance of NGO-standards.

Like any other bureaucracy, NGOs constantly run the risk of being over-powered by self-privileging tendencies since they secure their income not from those they turn to. Unlike organisations of workers whose members have their own incomes and which, in the event of bureaucratic degeneration of the organisation, can set up rival organisations without having to suffer serious economic disadvantages, NGO-target groups make small contributions to the organisation in return for substantial services. As long as they do not detach themselves from their base, NGOs can serve the objective of promoting mass consumption through poverty alleviation and labour-intensive measures oriented to the masses. However, due to the above mentioned limitations, they are not in a position to channelise the colume of Western aid.

NGOs are threatened by the same mechanism as confronts reform-oriented segments of state-classes: since they offer larger resources to their target groups than these could ever earn if they did not cooperate in implementing measures, they can very well use clientalist measures to bind members of these target groups, whom they need in order to acquire further resources, to the organisation.⁴⁰ Thus, they can develop the trend of working *for* and only formally *with* the target groups. It remains to be seen whether the objectives pursued will serve to establish a decentralized, market-steered relationship between the rise in labour incomes and the increase in production oriented to the poorer classes, along with the related increase in productive employment.

5. On the role of project selection in curbing state wastage

Western donors often justify their aid disbursements to NGOs with the arguement that this at least helps curb state mismanagement. True, this assumption should not be disputed outright, but it should certainly be relativised. Disbursements to NGOs also feed the budget and enhance the allocative powers of the state-classes. Since the organisations concerned engage personnel with a high rate of consumption and high import propensities com-

40 Qadir 1987, p. 62. Wood, Geoffrey: "Plunder without Danger: Avoiding Responsibility in Rural Works and Administration", in: *IDS-Bulletin*, 19-4, 1988, pp. 62f. Khan 1989, p. 102. Björkman, James W.: *Politics of Administrative Alienation in India's Rural Development Programmes*. New Dehli: Ajanta, 1979, p. 225.

pared with the poor, an increase in incomes in this case would probably push up revenue from customs and excise duties (and even from direct taxes where these are levied).

Even if one may entertain the hope that mismanagement on the part of the state will be curbed by direct allocation of aid to NGOs, one may not overlook the fact that such disbursements will themselves strengthen the position of the state through the taxing of the beneficiaries. As long as a development policy-motivated system of special treatment for exporters and import monopolies prevails in the import-export sector, the funds accruing from this source will fill private pockets through the state machinery (malpractices in the granting of licences). At some point or other, all resources from aid will again be spent on imports either by government officials, the NGO-staff or other beneficiaries. Even in the case of low import duties of supposedly 100%, the budget of Bangladesh, with a state component of 10.9% and an aid component of 9.3% of the GNP would be directly or indirectly dependent on foreign aid by as much as 42.6%.

Even if all projects are oriented to the needs of the poor, they supplement the income of the state-classes in the long run. Hence, as long as aid is forthcoming, much as it may be possible and desirable to channelise these funds to the target groups without involving the state machinery, there is no getting away from the fact that influence must be brought to bear on the state economic policy.

In fact, one may rightly assume that the state-class of Bangladesh - as in other countries - would not be willing to relinquish its role of custodian-cum-dispenser of Western aid meant for the poor. Since the West wishes to help the poor over whom the Bangladeshi state-class exercises sovereignty in keeping with the norms of international law, the state-class can levy an export duty - by way of a fee for access to the poor - on the export commodity which the West wants to buy, namely a good conscience.

This leads us to the conclusion that, irrespective of the quality of the projects at hand, foreign aid will provide funds for the state-class. Even potentially sound projects cannot be successful if efforts to step up consumption and production for those sections of the population caught in the "poverty trap" - an aspect considered to be of crucial importance here - are at the same time thwarted by the state economic policy. The state economic policy adds to the number of those trapped in poverty by marginalising potential producers through an excessively high rate of exchange.⁴¹ Thus, even sound project

41 Cf. Brecher, Richard A.: "Minimum Wage Rates and the Pure Theory of International Trade", in: *Quarterly Journal of Economics*, 88-1, 1974, pp. 98-116. White, Lawrence J.: "The Evidence of Appropriate Factor Proportions for Manufacturing in Less Developed

selection does not relieve one of the commitment to exert influence on the economic policy of the state-classes for which deregulation alone will not suffice, since it does not enable the effective channelisation of aid/rent to the poor.

6. On the utopian scheme of percolating rent down to the poor - A report from the 21st century

If deregulation is linked with the continued extension of aid, it can be only partial, unless investive aid projects are no longer implemented and all aid is directed to the poverty-trapped section. I would like to dwell on this case, even though I am well aware of the fact that such a solution is unlikely, even from the standpoint of donor interests alone, because it would endanger the very existence of all project-implementing organisations.

Let us assume that the donors agree on a kind of commodity money which, in the case of Bangladesh, has the specific weight of water and can only be collected in a labour-intensive manner. Furthermore, the donors announce that this money would be converted in Dhaka and some other places at a rate at which the average collection made by the poorest meets the costs of satisfying basic material needs and would be below the incomes of the land-owning peasants. This money would be brought in sacks and dropped from helicopters on to the remotest parts of the country.

The underemployed would then set about gathering this money. The gainfully employed would not forego their respective sources of income due to the low returns of this gathering process. The new group of gatherers would then proceed to exchange the collected money - under conditions of free competition - with suppliers of goods in return for a basket of commodities which, on the basis of the conversion rate corresponds with the "costs of reproduction" of labour. The basket of commodities will for the most part consist of foodstuffs and simple manufactured goods. The gatherers voice a demand for products from the agricultural and informal sectors. This demand cannot be curtailed because otherwise - in contrast to mere distribution of funds - the labour value of the gatherer would not be reproduced. In order to meet this additional demand, the farmers and small-scale manufacturers increase the demand for labour. Naturally they first of all recruit family members and friends, but even this gives rise to shortage of labour. As

Countries", in: *Economic Development and Cultural Change*, 27-1, 1978, pp. 53f. Berg, Elliot: "The World Bank's Strategy", in: Ravenhill, John (ed.): *Africa in Economic Crisis*. Basingstoke: Macmillan, 1986, p. 47.

a result of the incomes accruable from the collection of commodity money, labour incomes at the lower levels get more or less rigid. In order to increase their incomes, manufacturers and farmers will introduce innovations and go in for investments. If the rate of exchange is on a par with the incomes gained in the sector of production of (appropriate) technology, then the demand for labour in the rural areas will be further intensified by these investments. Gradually, with a decline in the number of the marginalised, the volume of money distributed can be reduced. In case of a temporary rise in the costs of the commodity basket owing to an increase in the marginal costs of agricultural production, the volume of money for distribution may also be increased. On the whole, such an increase in marginal costs would have a positive effect on the strategy pursued since in this case, for every additional unit produced, more rural labour, adequately qualified for this task, will have to be employed.

The increase in the level of consumption of the poor has been written down as an objective; it cannot be viewed as being wasteful. The newly created demand will render those very investments profitable which seek to promote development projects for the poor. This will bring about a reduction of expenditure as regards project selection by donors, project-implementing organisations, NGOs etc., together with corresponding personnel costs. Instead, these will emerge as the "seeking costs" of a rising class of small entrepreneurs in the agrarian and manufacturing sectors. Since these constitute the learning costs linked with the emergence of a class of small entrepreneurs, they should be regarded as development policy investments. Henceforth donors would offer consultancy services on a commercial basis. Their services will be availed of, provided they help effect an increase in the incomes of the target group members. Institutes of technical assistance will be required to provide the target group via the market with such solutions as will assure the members the highest possible growth in returns in relation to the factors of production employed.

Through the controlled build-up of such a "gatherers' economy", the poverty-ridden sections of the population would be elevated to an income level which is high enough to ensure the satisfaction of basic needs. The composition of overall demand will undergo a change because virtually all medium and high-level incomes, which had previously been either directly or indirectly fed by foreign aid, will be wiped out. The multiplier and accelerator effects of demand created in this manner are indeed substantial. Even though aid is initially directed at increasing consumption alone, it generates investment in that producers holding "assets" demand new investment goods to increase their own incomes. With these investment goods, they are then able to

meet a growing demand at declining costs, thereby effectively countering a depreciation of their assets in the wake of increasing competition within this small sector. The discussion on adapted technologies as a whole goes to show that such technologies do exist.⁴² Organisations of technical cooperation can lower the seeking costs of local entrepreneurs by offering consultancy services. An expansion of investment, investment goods production and mass consumption can be expected to result from the growth in productivity in labour-intensive production for mass consumption and from the subsistence income assured by the gatherers' economy.

As aid is paid in the form of a convertible commodity money with the same economic consequences as if a new resource industry had been built up, this form of aid does not trigger off inflation.

Of course, one may well object that this is a rather artificial economy. But is not the market-delinked investment in the Third World - arrived at through complicated computations of shadow prices and returns - just as much of an artificial economic process? If state intervention is to be in line with the market as much as possible, then the utopian scheme presented here would be much more of a market economy solution than all forms of deregulation currently in use.

As long as Western aid does not benefit the poorest of the poor through investment-generating full employment or the transfer of purchasing power to these sections by effecting an increase in mass incomes, then the interests of the poor - who are not present on the markets as buyers and, consequently, cannot sanction product offers and the choice of technologies by entrepreneurs - should be represented through appropriate project selection. Here the non-poor act in the interest of the poor.

On the other hand, by establishing an admittedly artificial gatherers' economy, the poor are brought into production as if a new internationally competitive resource such as gold or diamonds had been discovered in the respective region. The poor work and do not just receive income retransfers.

Such a form of aid is even less expensive than that presently implemented. In order to double the income of the poorest quintile of Bangladeshi households, not more than 60% of the actual aid disbursements would be required.⁴³

42 Bangladesh Small and Cottage Industry Corporation: *Industrial Profiles on Small Industries Sector*. Dhaka: BSCIC, 1981, and Id.: *Industrial Profiles on Small Industries Sector*, Bd. 2. Dhaka: BSCIC, 1986, indicates all capital goods on the basis of Indian suppliers' prices.

43 Data taken from: *World Development Report 1989*. New York: Oxford University Press, 1989, pp. 202, 222.

7. Attempt at a Conclusion

Deregulation aims at putting aid to more efficient use. It rests on the assumption that full employment will be achieved through the market, at wage rates corresponding to productivity, and that entrepreneurs will satisfy demand backed by purchasing power at the lowest possible cost by seeking out remunerative products and production processes. Development aid will be extended since private initiative has been unable to achieve these results in an underdeveloped economy.

Development aid is like a rent. Basically, it generates an income for labour which exceeds that earned from other sources of employment. As a result, it increases the factor incomes of the employed directly and indirectly via the incomes of producers who then satisfy an additional demand. At the same time, it impairs the competitiveness of the already existing productive sector vis-à-vis foreign producers. Such an increase in factor incomes is justifiable only where the productivity of labour is lower than the subsistence income. Such a trickle-down of aid to those sections of the population trapped in poverty cannot be expected in the current situation due to the lack of requisite forms of aid management, regardless of the selfless services of the personnel involved, the implementing organisations and the quality of the majority of the projects. Consequently, aid would be justified only if pumped into the large-scale projects currently under attack (the indivisibilities of such projects necessitating a volume of capital much larger than possible concentrations of local savings) or utilised to provide subsidies for the poor. In view of the small number of economically and ecologically viable large-scale projects and considering the difficulties of reaching out to the poor, the volume of aid should be cut down drastically.

Assuming aid is drastically curtailed, the state-class would have to procure alternative resources by directly milking the producers. I do not propose to dwell here on how far this is possible without inviting resistance from the private entrepreneurs in particular. Nevertheless, the democratic trends of the 80s witnessed in the Third World are also an expression of the disappearance of rent, as openly admitted by the governments themselves.⁴⁴ Even Islamic fundamentalist movements have registered success only where they have been able to mobilise the bazaar against the exploiting development state. In this

44 According to the Algerian Minister of Finance Hidouci, cit. in: *Révolution africaine*, 24 May 1990, p. 47.

role, they resemble the early bourgeois revolutions and their opposition to the absolute state.⁴⁵

The withdrawal of aid would not, however, wipe out possibilities for appropriating rents on the basis of structural heterogeneity. Deregulation through a curtailment of the state role will give rise to forms of centralisation outside the state apparatus, on the basis of certain export sectors, of the economy in which revenue increases can be attained through supply restrictions. The sectors referred to here are marginally dynamic, well-established and not necessarily traditional export sectors in which there is no further scope for increasing returns by stepping up production. It is quite obvious that this situation more or less corresponds to that prior to the world economic recession of the '30s, when corresponding social groups were characterised as "oligarchies" or "export oligarchies".⁴⁶ This structure is not keeping with the dynamic market economy hoped for.

If rents cannot be wiped out and the continued extension of development aid also proves indispensable, deregulation must be linked with a planned system of directing rents and aid to meet the needs of the poverty-stricken sections. To this end, a meticulous selection of projects and project implementers is important from the microeconomic point of view. This, however, does not obviate the need to increase the level of productive employment in the hitherto poverty-stricken sections, by promoting production oriented to the poor and furthering "appropriate" technologies. Only thus can the mechanisms inherent in capitalist economies be set in motion.

Thus, deregulation cannot dispense with a limited amount of planning. This planning can be kept within tolerable limits if it exclusively promotes more or less meaningful projects aimed at providing employment for the poverty-trapped sections and, in the process, identifies the bottle-necks in the production of inputs and investment goods which inevitably emerge with the creation of the new mass demand. By launching effective short-term programmes to reduce bottlenecks, planning can further help the productive

45 Arjomand, Said Amir: *The Turban for the Crown. The Islamic Revolution in Iran*. New York: Oxford University Press, 1988, pp. 106-111. Fischer, Michael J.: "Islam and the Revolt of the Petite Bourgeoisie", in: *Daedalus*, 111, 1982, pp. 110-115. Sivers, Peter von: "Work, Leisure and Religion: The Social Roots of the Revival of Fundamentalist Islam in North Africa", in: Gellner, Ernest (ed.): *Islam et politique au Maghreb*. Paris: Centre National de la Recherche Scientifique, 1981, pp. 363-369.

46 Levin, Jonathan V.: *The Export Economies. Their Patterns of Development in Historical Perspective*. Cambridge: Harvard University Press, 1960. Veliz, Claudio: *Centralismo, Nacionalismo e Integración*. Budapest: 1969, pp. 4f. Bauer, Arnold J.: *Chilean Rural Society from the Spanish Conquest to 1930*. Cambridge: Cambridge University Press, 1975, p. 45. Kaplan, Marcos: *Estado y sociedad en América Latina*. Oaxaca: Oasis 1984, pp. 29f.

sector adjust to identifiable changes in demand. This calls for economic survey patterns which go beyond the current mode of economic observation.

Deregulation therefore becomes part of a policy determined by distribution goals, leaving its imprint on the social structure, and, as a result affecting political interests as well. Even as it is usually defined, it is not neutral towards political interests. As it is commonly defined today, deregulation stands for the strengthening of private profit *vis-à-vis* rent appropriated through state channels. This conflict should be settled in periods of scarce resources, since those who, at least in principle, then demand the curtailment of waste, are also the ones who will be in control of the requisite funds. Since the possibility of appropriating rents is ultimately not altogether removed, but only shifted to new possibilities of intervention, which may perhaps be even more conducive to development than the older ones, there emerges within the state-class itself groups which are interested in this type of deregulation. The system of deregulation presented in this paper neither benefits the private sector, which is the focus of attention today, nor that section of the state-class which itself tries to participate in privatisation. Moreover, to a large extent it wipes out rents appropriated from import transactions through devaluation. The system of deregulation presented here also renders superfluous substantial sections of the "middle class" and "reform-oriented segments" of the state-class who derive their incomes from poverty alleviation projects, and supports the private initiative of small entrepreneurs both in the urban and rural areas, who, because of the non-profitability of production for the poor, presently lack the economic resources which would also secure them political clout. By ensuring the economic viability of this sector and the effectiveness of all support measures in eliminating bottlenecks in particular - which are bound to surface during the growth of this sector - such a strategy will help create a decentralised (yet, compared with the West, socially highly divergent) class of small entrepreneurs which, in the event of tendential full employment, will be confronted with the social demands of a labour movement with increasing conflict potential. Both sides will resolve their conflict over distribution by curtailing the privileges of the state-class.

The dynamisation of economies such as that of Bangladesh, which is expected to result from deregulation, can only be achieved if it is realized that market control not only calls for a regulatory framework for the formal regulation of property rights, but also a socio-political framework for income distribution, the latter having in fact provided the basis for the historical pre-eminence of control through the market.