

Panel Discussion

Summary of Professor Nurul Islam's Concluding Remarks

The neglected subject germane to the Advisor's responsibility is Governance. The major issue is public sector governance. Quoting the seminar held in a year ago in November, 2006 on governance, he mentioned that Professor Taslim wrote a paper on the governance conundrum in Bangladesh, and Professor Wahiduddin Mahmud spoke on the issue as did Dr. Hossain Zillur Rahman. The discussants did not come to a satisfactory conclusion on the issue.

Governance is a complicated, multi-faceted and widely debated issue all over the world. Governance is also development country-oriented, international development institution-centered issue. There is a slack in many developing countries in governance institutions, which is why significant, appropriate changes in policy lead to growth in income while governance remains unchanged. This happened in China, Russia and Eastern Europe. How much slack is there in Bangladesh? We don't know. We can find out through experimentation. Will the slack disappear with accelerated growth?

Policy and governance remains a murky area. Critical areas are:

1. Rule of law
2. Government effectiveness
3. Regulatory quality.

Corruption is one component of governance that bothers us all the time. Yesterday Gustav Ranis made an interesting suggestion that inflow of large foreign aid was a cause of corruption. Corruption has many components — nepotism, bribery, state captured by vested interest and changing policies to suit interests. We confuse corruption as we don't know the distinction between — US\$10–20 million in procurement of electric power station and Taka 10 bribe taken by a policeman; we all confuse these together. Grand corruption is related to procurement system and indirectly related to election financing. This is an endemic problem of all democracies.

The Advisor has mentioned the problem of consensus. Consensus is politically defined as sufficient minority participation in dialogue with the majority in policy-making so that the minority does not feel strongly enough to revolt. It is not synonymous with unanimity; if it were, then democracy could never function or flourish. Consensus is a very delicate balance to reach. The majority must not ruthlessly impose its will on the minority and must sufficiently persuade them. In Bangladesh, consensus among economists, like elsewhere, is absent, i.e., it does not exist. At any given moment, a majority opinion emerges, leading to changes in policy, and thus development proceeds through a policy zigzag. There is no straight line policy for development. Professor Wahiduddin Mahmud made a very interesting remark as to how much democracy is feasible/desirable.

On the issue of independent judiciary, it is noteworthy that the USA only has had a truly independent judiciary for the past 60-70 years. The process started over 1200 years through the Magna Charta in England (should actually be about 900 years given the Magna Charta was signed in 1166). We do not have the luxury of taking so long; but we have started the process.

Let us say democracy and governance are inter-related. Whether dictatorship or democracy is good for development is a totally un-resolvable and unnecessary question. History shows that we have had our share of both forms; irrespective of forms of government, development has occurred. The expectation is that as development takes place, at some stage, dictatorship is unfeasible. The example of Chile and Indonesia were mentioned. The process is cumbersome and clumsy. Quoting the World Development Report of a few years ago, Professor Islam mentioned that we really (economists and social scientists) do not know what generates and accelerates growth.

He had a small question on the domestic market vs. the export market debate. Stating that he was happy to revisit the issue after 50 years (it was a hot topic in the 1960s), he raised the following question:

Should we have incentive structure in the trade regime where it is neutral between import substitution and export promotion? He felt that the incentive structure for exports should be more in favor compared to that for import substitution given competition and barriers to entry into the world market.

Regarding the issues of growth, poverty and inequality, he felt that the issue has not been resolved in world economic literature, nor in the development community, nor in the debate over the past two days. All books and reports on equity and growth appear poverty reducing on the cover, and one has to be careful; analytical rigor must not be lost in rhetorical debate. Stating he still does not know the best way, Professor Islam mentioned one thing can be said for certain — inequality hampers growth, as it leads to social and political instability. Aside from that, at what stage inequality of income hampers growth remains uncertain, and he prefers not to open a Pandora's Box on this issue. Like Dr. Hossain Zillur Rahman suggestion, there is a sequencing problem here. At one stage we may go for reducing poverty and increasing growth even though at some stage we must tolerate increasing inequality. Land distribution was a topic of heated debate.

On the issue of aid and conditionality, Professor Nurul Islam mentioned that the problem did not lie in our stars, but rather in ourselves, and that it was not a problem caused by donors. It is the inability of ourselves to properly design policies, the inability of the institutions and professionals of Bangladesh to formulate cogent, defensible, analytical arguments to argue with the donors.