

POVERTY ALLEVIATION TOWARDS SUSTAINABLE DEVELOPMENT

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ABSTRACT

While several developing countries made rapid economic growth and development still there are many countries that suffer from high level of poverty, economic stagnation and environmental degradation. What underlying forces have made for rapid progress in some economies and the lack of progress in others? Why do people get left behind where some enjoy improvement in their standard of living? Is the progress that is occurring sustainable or is it based on policies that are exhausting natural resources and destroying the environment? What poverty alleviating policies are available to the affected countries? These are some of the vital questions that are addressed in this paper.

There is no consensus about what sustainable development means. This paper also seeks to clarify the meaning and utility of the concept. It develops an analytical framework for sustainable development and applies it to a typical poverty-ridden country focusing on its management of the scarce resources. The paper presents specific policy guidelines primarily based on competitive markets and associated structural transformations for sustainable development.

INTRODUCTION

By economic growth is meant an increase in the level of income or output of goods and services produced by a nation typically during a year. But economic development means economic growth produced and enjoyed by most people of the nation. The concept of "poverty" is at least 200 years old but "economic development" has received attention since the end of the Second World War. Poverty means a lack of economic development, whereas economic development implies moving towards getting rid of poverty. But there is no consensus about what sustainable development means. This paper seeks to clarify the meaning and utility of the concept of sustainable development (SD).

The development experience needs to be examined in light of the above framework. The question of the appalling poverty of large numbers of the world's people, with continuing enormous inequities between rich and poor, remains as potent as ever. Over the past decades, the increasing inequality in wealth between different groups and parts of the world as well as of the country, the spread of localized wars, and the new importance of issues such as environmental degradation, international debt, ethnic and nationalistic movements, and other forms of competing collective identity, all demonstrate the potential for "social dislocation" turning into worldwide chaos. Thus it is ever more urgent to address such issues and since 1995 development goals and targets have been reiterated in several areas related to poverty alleviation.

While several third world countries, such as the newly industrializing countries (NIC) including the Asian tigers, made rapid economic growth and development still there are many countries

that suffer from high level of poverty, economic stagnation and environmental degradation. From 1960 to 2000, the average income per capita for developing countries as a whole rose three-folds. But in the second half of the 1990s, 1.3 billion people in developing countries lived on less than \$1 a day, 32% in the transition economies on less than \$ 4 a day, and 11% in developed countries on less than \$14.40 a day. The distribution of income is highly skewed. The three richest persons in the world have assets that exceed the combined GDP of the 48 least developed countries. While many people live under fairly democratic regimes, there are still about one-third of the people under dictatorship or monarchism. 13.2 million people worldwide are refugees. Four out of five people have access to health services and 90 percent of one-year-olds in developing countries are immunized against tuberculosis. But still 880 million people have no access to health services, 31 million people live with HIV, and 109 million primary-school -age children are out of school. Although in the last three decades the index of daily calorie supply per capita increased, 841 million people worldwide are malnourished. Although there is a worldwide acceptance of general agreements on protecting the environment, desertification and drought still affect 1.5 billion people worldwide. (UNDP 1998).

What underlying forces have made for rapid progress in some economies and the lack of progress in others? Why do people get left behind where some enjoy improvement in their standard of living? Is the progress that is occurring sustainable or is it based on policies that are exhausting natural resources and destroying the environment? What poverty alleviating policies are available to the affected countries? These are some of the vital questions that are addressed in the paper. It applies the concept of SD to a typical peverty-ridden country such as Bangladesh focusing on its management of the scarce resources. It also presents specific policy guidelines primarily based on competitive markets and associated institutions for sustainable development.

THE DEBATE ON SUSTAINABILITY

An analysis of sustainable growth and development calls for an understanding of the elements that comprise the conceptual basis of sustainability, particularly when competing views exist among economists. The issues, which characteristically separate the competing views, stem from differences in assumptions upon which each of these ideas is presented. Perhaps the most debated assumption is the extent to which manufactured capital and natural capital are substitutes. Neo-Malthusians, the Club of Rome, and other Stationary-State theorists fill the ranks of the legion of pessimistic economists who fear negative changes in the total stock of natural capital. Diametrically opposed to these doomsayers stands Solow and other optimistically inclined neo-classical economists who look favorably on the "Backstop Technology Theory" of resource use. Falling inconspicuously between the polar extremes, there is a third group of theorists who incorporate certain aspects of each of the other two groups in addition to employing the principles embodied by Hartwick's Rule. (Pearce et al 1990 and Sarkar 1998)

The concept of sustainability requires that we account for declining utility resulting from environmental degradation. In neo-classical economics, utility is simply a function of the level of consumption which is itself a function of output level. It assumes that the marginal opportunity cost of selling off environmental inventories and destroying natural assets is zero. Economic growth cannot be sustained if the resource base from which inputs are derived is depleted to fuel the increasing output. A sustainable economic model will incorporate utility that is a function of both consumption level and environmental quality - which contributes to resource productivity and greater output. Such a model includes accounting practices where the costs of environmental degradation and resource depletion are internalized. Pollution, a serious problem in

industrialized countries, which results from the use of environmental inventories, such as smog caused by the burning of fossil fuels, may be thought of as a luxury good. But the protection of the natural assets, which when sustainably used provide the means of subsistence for rural and tribal peoples, is in fact a necessary good!

SUSTAINABLE DEVELOPMENT

The idea of sustainable development is an outgrowth of three movements, those of international development, appropriate technology, and the environment movement. However, the term sustainable development seems to have almost as many definitions as there are people who use it. However, the following few definitions are most popular:

1. Sustainable development is development that meets the needs of the present without compromising the ability of future generations to meet their own needs. (WCED 1987)
2. Sustainability requires that the value of natural capital assets should not decline through time. (Pearce et al 1990).
3. Sustainability implies the non-declining utility of a representative member of society for millennia into the future. (Pezzey 1992).

Definition 1 implies that each generation should leave enough natural capital so that future generations can meet their needs. Here "needs" remains undefined. Needs of previous generations, say in third century are not the same as the needs of this generation. The major problem with the second definition is determining the terms of trade between natural assets. We do not know the utility functions of future generations and how will they trade off two types of natural resources. The third definition talks about "representative member of society". Again who are the representative members of a society is not easy to determine. Some people also questioned the requirement of non-declining utility.

According to the World Bank (1992), sustainable development is development that lasts and development does not concern economic growth alone. An important element is the concern for equity, both for present and future generations. Often, value judgments form an essential component of a definition of sustainable development and opinions regarding scarcity weigh heavily as well.

MEASURES OF POVERTY

The World Bank target of "reducing by one half the proportion of people in extreme poverty by 2015" requires a criterion for deciding if an individual or household is poor. The World Bank does this by measuring a person's income and establishing a "poverty line" which represents an income level below which a person is held to be in extreme poverty. The global target for reducing poverty uses a single poverty line for the whole world, so that those in extreme poverty are those whose income is less than US\$1 per day (measured in "1985 PPP dollars" – i.e. adjusted for "purchasing power parity"). It is then possible to think of measuring the proportion of the population of a country below that poverty line – or estimating it, since there are enormous difficulties associated with direct measurement of individuals' incomes on a large scale. The corresponding indicator used by the World Bank as a measure of the development of different countries is gross national product (GNP). GNP uses market valuations, and is in practice a measure of national income; GNP or gross national income per capita gives an indication of the average material living standard on a nation's people. The World Bank uses a figure of US\$ 14.40 per day (in 1985 PPP dollars) to calculate the numbers in poverty in industrialized countries (rather than the \$1 per day for the world as a whole). This figure was the official United States income poverty line, calculated in terms of the minimum required to obtain what is needed to participate in the everyday life of US society. Another common

measure is the percentage whose income is below half the median income level in a particular country. (Allen and Thomas 2000).

Another approach that the UNDP has been following is to develop a series of composite measures. It has produced the Human Development Index (HDI) and a number of variants. The basic HDI is an average of indices of what the UNDP considers to be the three most important aspect of human development: the health of a population, measured by life expectancy; its educational attainment; and its material standard of living, measured by GDP per capita (in PPP dollars).

Recently the UNDP has also produced a Human Poverty Index (HPI), again with variants. In a similar way, the HPI is an average of three (or four) measures of deprivation: vulnerability to death at a relatively early age, deprivation in knowledge, and lack of decent living standards. Interestingly, the UNDP has developed two different HPIs, one for industrialized countries and one for developing countries. Different standards for what constitutes deprivation are used in the two cases; thus for developing countries the first index is based on the proportion of the population not living beyond the age of 40, whereas for industrialized countries the age of 60 is substituted; for developing countries poor living standards are measured by lack of access to health services and to safe drinking water, whereas for industrialized countries an income measure is used. In addition, for industrialized countries a fourth measure, of social exclusion, as indicated by the level of unemployment, is also included.

There is a clear contrast between the main indicator of poverty and of development used by the World Bank and the UNDP. While the former concentrates on income measures, the latter has a broader view of poverty (and development) as multi-dimensional. The policy implications of the two are also different. Whereas the Bank stresses labor-intensive economic activities, the UNDP would give more emphasis to developments in the social services like education and health.

THE ANALYTICAL FRAMEWORK

From the foregoing it is apparent for ecologists, economists, and scientists who understand the essence of resource scarcity, sustainable development (SD) is the path that maximizes the long-term net benefits to humankind. Because SD is focused on net benefits it ensures that the cost of resource and environmental degradation will not be undervalued- all costs and benefits will be internalized. Such a concept values preservation or conservation not for its own sake, but for its contribution to the perpetual human welfare. SD does not necessarily imply low rates of GDP growth, it implies more efficient growth. SD in this sense is consistent with market efficiency, privatization, decentralization, and democracy. The growth process of now developed countries were characterized by these principles along with high rates of factor productivity, structural transformation, equity, and international economic outreach.

Market efficiency is based on the operation of competitive markets where the forces of supply and demand determine price and allocate resources accordingly. Price of anything is equal to the additional cost of making available for sale an additional unit of that output or input. Market adjustment of price removes shortage or surplus. Government does not interfere with price adjustment. The net social benefit (the sum of surpluses of buyers and sellers over their willingness to pay and sell respectively) is thus maximized. The role of the government is limited to maintaining the law and order situation, regulating monopoly power, providing public goods, dealing with business cycle and externality such as pollution, and reducing the gap between the poor and the rich.

Several goals for development have been agreed at a series of OECD, United Nations and World

Bank conferences. Nevertheless, national governments and international agencies remain apparently unable to mount a concerted and successful "economic development" effort to remedy the situation. According to Allen and Thomas (2000), six social goals to be monitored by the development community as part of a new international development strategy are: (1) *Poverty*. Reducing by one half the proportion of people in extreme poverty by 2015; (2) *Mortality*. Reducing by two-thirds the mortality rates for infants and children under 5 and by three-fourths the mortality rates for mothers by 2015; (3) *Education*. Achieving universal primary education in all countries by 2015; (4) *Health*. Providing access to reproductive health services for all individuals of appropriate age no later than 2015; (5) *Gender*. Demonstrating progress toward gender equality and the empowerment of women by eliminating gender disparities in primary and secondary education by 2015; and (6) *Environment*. Implementing national strategies for sustainable development by 2005 to ensure that the current loss of environmental resources is reversed globally and nationally by 2015.

DEVELOPMENT EXPERIENCE

The era of development can be traced to January 20, 1949, when Harry S. Truman took office as President of the United States, declaring in his inaugural address that: "We must embark on a bold new program for making the benefits of our scientific advances and industrial progress available for the improvement and growth of underdeveloped areas. The old imperialism – exploitation for foreign profit – has no place in our plans. What we envisage is a program of development based on the concepts of democratic fair dealing." (Esteve 1992).

The idea of development remains salient today as it has been in the last 50 years. Japan being a small group of recently ravaged islands became the world's second-largest economy. South Korea and Taiwan emulated the Japanese model of export promotion with similar successes. These successes are the results of high level of education, market efficiency, effective environment protection and resource management, decentralization, and democracy. Many made significant change in the colonial structures. Despite the setbacks of the Asian financial crisis of late 1997, it remains the case that the four "Asian Tigers" (Hong Kong, Singapore, South Korea and Taiwan) have industrialized and joined the ranks of the "high-income economies" with the implication that others might follow the same path, while China, the world's most populous country, has also sustained an economic growth rate of over 10% for the last 20 years, with manufacturing now accounting for 40% of its gross domestic product, after it carried out market reforms and opened up its economy. In terms of human development, there have been general improvements such as reductions in mortality and increases in literacy and also specific cases of countries where socially oriented development policies have brought clear benefits. By contrast, many countries in Latin America, Central and South Asia, and sub-Saharan Africa have achieved occasional unsustainable or very low or even negative economic growth rates for the same twenty years and Africa in particular has seen a spread of civil war and in some cases the effective collapse of state administrations.

The era of development has also been the era of the Cold War. The two superpowers, the USA and the USSR, competed with each other for influence over the newly independent, former colonies of South. The model of state-led socialist development pioneered by the Soviet Union proved quite attractive to many of these countries, especially once China began to follow a similar path after the Chinese Communist Party took power in 1949.

Other countries sought a new form of democratic participation; neither the capitalist parties nor the organized communist parties on the Eastern European model provided for the sort of direct democracy they were after. In 1956 the Suez crisis provoked great disillusionment with the

capitalist countries, but the Soviet invasion of Hungary in the same year generated a similar disillusion with Eastern European state socialism. This double crisis also gave Nasser of Egypt, and Tito of Yugoslav, independent stature, and with India's Nehru they became the driving force behind the non-aligned movement (NAM).

Non-aligned conferences have brought together the leaders of most of the countries of the "developing" world every four years since 1961. By 1970 there was a clear "non-aligned philosophy", emphasizing three basic principles: peaceful coexistence, anti-colonialism and the struggle for economic independence. In recent years the NAM has become much less prominent, through many of its members are also in the "Group of Seventy-Seven" (G77), which continues to function as political, and to some extent economic, pressure group, for example at the United Nations.

However, as time went on, both economic differentiation and political polarization tended to break up the rather fragile unity among third world countries and destroyed the original idea of the third world as the non-aligned world. In economic terms there were enormous and growing differences between the "newly industrializing countries" (NICs), including the four "Asian Tigers" and some others such as Brazil and Mexico, and the continuing poor agrarian countries such as most of those of sub-Saharan Africa and South Asia where there was no significant change in the old colonial structures.

Throughout the 1980s and 1990s, these divisions if anything became even more pronounced. Also recently, neo-liberalism, with its emphasis on market mechanisms, became the dominant way of thinking about development. New issues came to the forefront, notably the environment, international debt, and the question of children and gender relations.

THE CASE OF BANGLADESH

Bangladesh, a 30 years old nation of about 130 million people in 55 000 square miles (the size of the state of Wisconsin in the USA), is plagued with many problems that makes it as one of the least developed countries of the world. Its core problems arise from severe misallocation of scarce resources. One of the lowest per capita income, highest inequity, large-scale corruption, high illiteracy rates, poor social and physical infrastructure, environmental problems, frequent civil unrest, and natural calamities are typical.

According to UNDP (2000), the rank of Bangladesh among all countries, based on the Human Development Index (HDI), dropped from 136 in 1991 to 146 in 2000 (being 150 in 1998). The 1998 per capita GDP (in 1995 US \$) of \$348 is one of the lowest in the world, compared to \$444 in India, \$493 in Bhutan, \$511 in Pakistan, \$802 in Sri Lanka, and \$1247 in Maldives. A 1995-96 survey indicated 35.6% (39.8% rural and 14.3 % urban) population in Bangladesh below the national poverty line compared to 29.1% population below \$1 a day and 77.8% population below \$2 a day the international poverty lines. According to 1997 survey, the Indian population is estimated at 44.2% below \$1 a day and 86.2% below \$2 a day compared to Pakistani population of 31% below \$1 a day and 84.7% below \$2 a day the international poverty lines. (World Bank 2001). Although Bangladesh is little better of than India and Pakistan, in terms of population percentage below international poverty line, the magnitude of poverty in all these three countries is enormous. Although Bangladesh is little better of than India and Pakistan in terms of population percentage below international poverty line, the magnitude of poverty in all these three countries is enormous.

More alarming is the food supply data for Bangladesh. From 1970 to 1997 the daily per capita supply of calories decreased from 2197 to 2085, when at the same period it increased for other developing countries. The daily supply of protein declined by 4.5% during this time. On the

other hand, the daily supply of fat increased by an astounding 41%. These numbers show that the Bengalis are not eating as well as they did prior to becoming an independent nation. An Economist article few months ago reported that about 40% of its people eat one time meal a day and there was no protest to the report suggesting the accuracy of the estimate. During the 1990s, it had the highest percentage (56) of under-weight children, below age five, in the sub-continent.

Adult literacy rate is at 40.1 % in Bangladesh compared to 42 % in Bhutan, 44% in Pakistan, 55.7% in India, 84.1% in Myanmar, 91.1% in Sri Lanka, and 96% in Maldives. In 1975 its urban population was 9.3% that rose to 20% in 1998. But it has been able to keep its population growth under control at 1.5% per year by 2000. (UNDP 2000).

Of course, Bangladesh has now many more millionaires than 30 years ago. According to World Bank (2001), the richest 20% population enjoyed 42.8% of national income during 1997-98 compared to 8.7 % enjoyed by the poorest 20% of the population. Many of the wealthy elite enjoy large amounts of wealth accumulated through corrupt practices. Although it is a poor country, its public expenditure demonstrates gross misallocation of scarce resources. In 1990, it allocated same percentages of its GDP to expenditures on education and military. Its expenditure on healthcare has been roughly half of the expenditure on the military. Countries like Iran, Botswana, Kenya, Zimbabwe, even India allocated more of their national income to education than in military. Bangladesh in 1998 allocated 2.2% of its GDP to education compared to 2.7% by Pakistan, 3.2% by Nepal, 4.1% by Bhutan, 3.2% by India, 3.4% by Sri Lanka, 6.4% by Maldives, 4.0% by Iran, 6.5% by Kenya, and 8.6% by Botswana. Bangladesh has been increasingly importing more food products. Imports of luxury goods in general have been on the increase as tariffs decreased significantly in the past decade. (UNDP 2000).

Historical Reasons

Prior to December 16, 1971 Bangladesh was East Pakistan. In the past, Bangladesh, formerly eastern part of Bengal was a constituent of northern Hindu and Muslim empires in India. From the late eighteenth century on, it was part of British India when it became East Bengal. In 1947, India was partitioned and a new country Pakistan was created. East Bengal became East Pakistan and West Bengal remained with India. Calcutta, the major city in Bengal, historically has been the focal point of trade, industry, transportation, and communication. It became a part of West Bengal leaving East Pakistan without infrastructure or industry. From the beginning friction existed between West and East Pakistan largely due to their social and cultural differences as well as the many miles that separated them. The East constantly felt ignored especially in regards to economic development and political influence. The East felt this was unjustified with the little influence it had while being the most populated of Pakistan's two wings.

The Muslims, first from the Middle East and later from Central Asia, moved to and settled in India. They ruled India for about 900 years before the British rule of about 200 years. Unlike the Muslims, the British did not settle in India. Instead they created highly centralized elite civil services and organized the armed forces with bright young Indians through whom they ruled and exploited India. These officers also played the role of translators for the British and were primarily revenue collectors. It was in the British interest to transfer power to political forces who would not dismantle the administrative machinery that the colonial government installed in the sub-continent. Within a decade of creation of Pakistan, the military took over and started, with support from the civil services, discriminating against the eastern part, which later in 1971 through a civil war and Indian help, became Bangladesh. Bangladesh also follows the Pakistani style of rule by the civil and armed services.

Unfortunately, in all the three countries of the sub-continent the old colonial administrative machinery is still in place which got strengthened, more ruthless and exploitative as there is no accountability or control which their predecessors had from the British. Even at present highly talented students are attracted to the civil and military officers' cadres in the sub-continent including Bangladesh as enormous opportunities exist for personal legal and illegal gains. Although they undergo subsequent job training, the educational minimum for the candidates have been bachelor degrees (equivalent to half of the U.S. bachelor degree such as associate degrees) and often these degrees are in humanities. In the sub-continent, these highly centralized civil and armed service officers who replaced the colonial officers are the ones ruling the countries as the political leaders are very weak and usually the low-achievers as students. The leaders prior to 1950s were learned, mature and professionals. The later leaders in Bangladesh have been less educated, young, and often without any occupation. (Novak 1993). Many such politicians are easily purchasable and they are supported by local terrorists. The two current major leaders of Bangladesh (one widow of a popular military dictator and the other one the daughter of the independence leader) were simple house-wives and were placed in power by the followers of the two deceased leaders. The real power therefore remains with the civil and military officers and their associates, unlike in the developed world including the newly industrialized countries such as Taiwan, Singapore, Malaysia, Israel, and South Korea.

Political Instability

Bangladesh emerged as a new country plagued with constant political instability. Widely accepted independence leader Sheikh Mujib won elections in March of 1973. In January of 1975, the government declared a national state of emergency and parliament was replaced by a one-party rule with him still in power. However, on August 15, 1975 Mujib was assassinated during a right-wing coup d'état. Officers as well as one of Mujib's ministers led the group, Khandker Mustaque Ahmed, who took over as president. After a short two-month reign as president, Khandker Mustaque Ahmed was overthrown by Major General Zia ur-Rahman. He soon installed the chief justice, A.M. Sayem as president.

Zia took control of the presidency in April 1977. Zia formed the Nationalist party towards the end of 1978 and won the 1979 elections by a landslide. During Zia's presidency he brought about some stability to the country as well as reintroducing civilian rule. Zia was also assassinated while in power in a 1981 coup attempt. His vice president, Abdus Sattar, became president until forced out of office by a successful coup led by Lieutenant General Ershad, the army chief of staff. Ershad reintroduced martial law and on December 11, 1983 he made himself president. The Jatiya party (party of Ershad) won the May 1986 elections. In November of that year Ershad was forced to declare a state of emergency and to dissolve the parliament as the result of violent antigovernment demonstrations.

During 1988, the Jatiya Party won the elections again. The victory was very much boycotted by the opposition. Ershad declared Bangladesh an Islamic republic. In December 1990, Ershad was overthrown and put in prison on charges of large-scale corruption. The following year new elections were held which resulted in Bangladesh's first freely elected parliament. Under the leadership of Begum Khaleda Zia, the widow of Zia ur-Rahman, the Bangladesh National party (BNP) came to power. In a later election another lady, Mujib's daughter, Hasina of Awami League came to power and the two are now constantly confronting each other for power, often in the streets by way of political demonstrations followed by terrorist attacks. Both achieved their positions because they are the daughter or wife of previous leaders. Till recently, Hasina was in power and she was compelled by Khaleda to transfer power to a care-taker government in the mid-2001 so that an early election can be held. In the meantime, the economic life often gets

paralyzed by political insecurity. Bangladesh has a history of constant struggle between political parties to retain power. There is hardly any ideological or policy difference in the major parties, even their names mean the same: Awami in Urdu, Nationalist in English, and Jatiyo in Bengali. Also, many leaders often change parties in search of personal opportunities.

Corruption

Bangladesh has had a long history of political corruption. Dating back to the British colonial rule under the East India Company, rampant corruption has proven to be a way to prosper in Bangladeshi society. Many company officials were using their power for personal gain at the expense of others. The British Government took over the East India Company with the hopes of ridding the system of such widespread corruption.

Honest British Governmental rule proved to be difficult because the very concept of colonization includes using another for personal enrichment. Colonial rules usually favored the mother country over the colony, ensuring them maximum benefit. Improvements were made to the system by increasing the pay of government servants and enforcing rules against dishonesty. In addition, government officials were not allowed to take on personal business as well as government works. As a result small improvements were made but those efforts proved to be useless because the root of the problem was not entirely addressed. Lower workers were expected to live off the land or were paid very little for their services, creating breeding grounds for corruption. For example, law enforcement officials were paid very little, but possessed excessive power over the common people. Often bribes were paid in exchange for political favors. Historically, particular departments have been known for cases of widespread corruption such as Police, Customs, Taxation, and Engineering. The present Bangladeshi government shows signs of rampant corruption in all departments including Education, Judiciary and Defense.

Bribery has become a common practice and accepted as a way of life for those who live in Bangladesh. For a variety of reasons Bangladeshi citizens, as well as businessmen, bribe civil servants for illegal favors (Rashiduzzaman 2001). These favors include loan default, government supplier, smuggling, and tax evasion. All of these are depriving the state of needed monetary resources to maintain as well as to improve society. All too often civil servants are "found out" and continue to hold their positions due to weak governmental authority. Punishment for such corruption is minimal and the monetary gain is high (Quah 1999). In this political setup both the civil servant and the person wanting an illegal favor can both benefit from such bribery. After independence of Bangladesh, the military and political leaders joined the civil servants in these endeavors. Other professionals, business people, and landlords were also not left out.

Such corrupt practices create a domino effect of self-destruction for the Bangladeshi economy, forcing a reliance on foreign aid for basic necessities such as infrastructure, health care, and utilities that are important for urban areas where the powerful wealthy elites live. In the process, such reliance on foreign aid hinders future growth as foreign loans increased the national debt to \$16.4 billion in 1998. (World Bank 2001). Corruption creates massive concentration of wealth and inefficiencies to the system pushing them further in a downward spiral.

For example, revenue for water supply and sanitation services on average only cover 29% of current expenditure. During a pilot leak detection prevention program, it was estimated that, of the total water produced by DWASA, only 44% was billed. The remaining 56% were attributed to administration and technical losses, (31% and 25% respectively). (Khan and Siddique 2000). Administrative losses include:

1. Incomplete customer database
2. Un-metered service connections
3. Illegal and Illegally reconnected service connections
4. Inaccurate and tampered-with connections
5. Wrong meter reading, faulty invoicing and rent seeking behavior by revenue inspectors

Technical losses include, but are not limited to, leaking pipes, service connections, in-operating fittings, and overflow. Such level of corruption exists in all the state run corporations and agencies.

In the First six months of 2000, 115 billion taka (2.1 billion U.S.) were lost due to known incidents of corruption. (XNA 2000). Law enforcement reforms are needed to provide a strong backbone to Bangladeshi society. There must be an end to corruption in law enforcement because it is setting a poor model for future generations to follow. The most corrupt body in Bangladesh is known to be the law enforcement body. (The Independent 2000). Lawlessness prevails in Bangladesh because those in charge are more concerned with personal gain than enforcing laws. Clear consequences must be set for their actions. In the current system, there is no "fear of getting caught". To create a body of law abiding citizens there must be strict enforcement of laws. Full information, Consequences for performance, and prosecution of illegal activity are all strong defenses against acts of corruption.

Inefficiencies

Immediately after independence, Bangladesh began to follow a socialist ideology and as a part of a central plan nationalized all medium to heavy industries including manufacturing, transportation, communication, utilities, commerce, banks, and other financial institutions. They were organized as many state-run corporations headed and supported by a board of directors who were on deputation from the civil services with no managerial skill or experience of running business. The deputed civil service officers were let loose. Political influence, nepotism and favoritism became the normal practice in hiring and promotion. All corporations became overstaffed producing far below the capacities. Soon the government introduced one party rule and brought all newspapers under its management and control. The mid-level political leaders, labor leaders, and student leaders- all wanted to be rewarded for their contribution to the independence struggle and one way was to give them the managerial positions below the civil service officers in the state corporations. The military officials feeling being left out replaced the elected government by force and began to join the civil service officers in running the state corporations. The governments began to introduce innovative system of permits and licenses so that the people in power could build their personal financial empires. The jute industry once famous for the bulk of foreign exchange earnings soon became bankrupt incurring huge losses and this condition has been typical for all other corporations that took the form of state supported monopolies with all associated problems. There are several reasons for such high levels of inefficiency including poor training (education), lack of accountability, and a lack of commercial orientation (private-owned industry). It is the combination of all three that causes such extreme inefficiencies in Bangladesh.

Often management is left without clear performance objectives and goals. The heads of the corporations and the directors of the board are under the administrative control of the secretariat divided into many ministries and permanently headed by a secretary who got the position by seniority alone. The system of red-tape and how the files move up and down is well known throughout the sub-continent. Countries can change, governments can change, but civil and armed services do not change and higher positions are only distributed on the basis of seniority.

The government under pressure from the donors is slowly allowing an increase in privatization and opening the borders to foreign investments, but this process must be increased. A basic goal of any industry should be to create some form of profit, but instead Bangladeshi industries are filled with inefficiencies and losses. Many workers search for loopholes as workers are more concerned with personal gain through corrupt practices such as bribery rather than improving the system as a whole, which would create a mutually beneficial atmosphere. Banks provide huge loans on fraud papers with a heavy commission fully knowing well that the loans will be never repaid.

Lack of commitment by government agencies toward sector reforms hinder progress towards economic improvement. Many inefficiencies stem from the root of a lack of accountability. Those in charge do not feel a sense of responsibility towards improvements and are more concerned with personal gains. This work ethic has infected the entire workforce from the top officials to low level workers. Historically, this attitude stems from the colonial times when the civil servants cared very little about the result of their working efforts. When the British pulled out of India the same exploitative governmental systems remained in place, but without the British authority, control, and supervision. As a colony under British reign, the government controlled all economic activity. This economic system continues today, but without the control of the British officers. In the absence of the colonial control and supervision, the Bangladesh government became more ruthless because they possess no accountability.

Education Status

Soon after independence the government discontinued English as a medium of instruction in colleges and universities although the children of the policy makers were sent abroad to learn English. In Bangladesh, universities are organized following the Soviet-system where a small slice of a discipline formed a department, school or faculty. For an example, the discipline of biology in Dhaka University forms a faculty headed by a dean with several departments such as botany, zoology, microbiology, biochemistry, etc. There are separate colleges and universities for engineering, medicine, agriculture, arts or music headed by a vice-chancellor and his or her deputies. The focus is distribution of positions and creating supporters for policy makers. The current focus of professors is to look for NGO assignments and political positions rather than paying attention to academic duties. Higher education programs continue to follow the old colonial system producing civil service officers rather than professionals with adequate acquisition of skills. This education style involves heavy memorization rather than practical knowledge. As a result, individuals in management positions lack the proper training to perform their functions successfully.

Poor training can be seen in both management and staff of various state-run programs. Management lack the skills needed to manage and operate an institution. Lower level workers are not properly trained or motivated to do their jobs well. Due to lack of skill, poor billing and collection services frequently occur. Lack of proper training in accounting, commercial practices, and economics further escalates the problem as few have the knowledge and skills required to understand the strong need for efficiency.

Infrastructure and the Environment

Bangladesh has inefficient infrastructure services that are essential for economic success. Basic structures such as telephone, energy supply, clean water supply, and transportation and port services are necessary for the economy to survive and flourish. All infra-structural services are weak; many using outdated equipment unable to meet the needs of society.

The level of pollution particularly air pollution in major cities is increasing at a rapid rate.

In Bangladesh, the emission of carbon dioxide in million metric tons is estimated to have increased from 15.4 in 1990 to 23.0 in 1996. (World Bank 2001). The meager resources such as natural gas and forests are under the control of the government and they are managed very inefficiently. Large-scale corruption and illegal logging brought the effective forest down to less than five percent although more than 20% of the country is officially designated as forests. The environmental conditions throughout most of Bangladesh are poor, with discharges of human and industrial wastes into the river systems, possible contamination of ground water from lack of adequate sewerage, and inadequate management of solid waste disposal. Because of the heavy rainfall the country receives, which is usually between 1500-5000mm annually, there is an abundance of surface water. This surface water becomes very polluted and requires mechanical and chemical treatment. With so much of the surface water being polluted the major source of clean water comes from groundwater. Over-abstraction of the ground-water supply is causing the availability to rapidly decline. In urban areas such as Dhaka City it is estimated that 42% of the population has access to reasonably safe water, while the remaining 58% rely on contaminated sources. Between 1973 and 1990, public outlays for water and sanitation dropped from 2.48% to 1.25. Compared to similar Asian countries these percentages are very low, Sri Lanka (6.0%), Nepal (4.0%), and Myanmar (2.9%). Water supply utilities are very inefficient and need dramatic improvements to prevent further losses. (Khan and Siddique 2000).

This lack of reliable basic infrastructure deters foreign investment. Infrastructure systems are state-owned in Bangladesh. As a result the cost of doing business is very high. For firms interested in operating in Bangladesh they must overcome unnecessarily high expenses privately charged by government officials. These added costs hinder the competitiveness of firms operating in Bangladesh.

International trade

Trade liberalization began in Bangladesh with the joining of the WTO at the Uruguay round. The purpose of joining the trade alliance was to strengthen the domestic production base and competitive position while gaining market access in countries with heavy spending power. This process began in the mid-1980's and still continues today. In the earlier years export diversification and import liberalization took priority. In efforts to help improve the diversification of exports Bangladesh helped non-traditional export producers convert earnings at a higher exchange rate giving them improved earnings. This boost of non-traditional exports improved the growth of the export earnings. In the 1990s real growth was 16%, an improvement from 5.5% during the 1980s. Traditional exports of Bangladesh consist primarily agricultural products such as jute. Textile products such as ready-made garments have rapidly grown to become the primary export consisting of 83.5% of Bangladesh's exports. Rising corruption practices are causing sharp decline in competitiveness of Bangladesh products in international markets. Agriculture is still an important part of the country's GDP. The agricultural industry employs 63% of the labor force while producing 30% of GDP. Further diversification is needed to improve the economy.

Pro-market reforms were implemented in Bangladesh neither to stabilize the economy nor to meet broader developmental challenges. Instead, reforms were used to consolidate the power of the ruling elite. Military and civilian regimes have treated market reform as an instrument to build and maintain political coalitions in particular with traders and industrialists. (Quadir 2000).

Non-government Influence

There are approximately 20,000 non-governmental organizations (NGOs) operating in Bangladesh. Most of these NGOs are located in the many villages of Bangladesh. NGOs are

responsible for providing the poor with education, small loans, and agricultural development; these contributions have undoubtedly improved Bangladeshi society. (Quah 1998). There are a few NGOs that operate worldwide while most of them are much smaller in size. Some of the larger NGOs include the Grameen Bank, the Bangladesh Rural Advancement Committee (BRAC), Proshika and the Association for Social Advancement. Funding is provided primarily by foreign aid and amounts to \$250 million annually.

BRAC is an educational NGO that provides schooling only to those who do not attend or have not dropped out of government schools. BRAC's focus is on educating women in rural settings. Many of the teachers are women without teaching qualifications. Schools are run out of rented thatched huts and are set with very flexible hours and little to no outside work to enable the children to do agricultural work to earn wages for their families. Many of these women would remain uneducated had they not had this opportunity. BRAC reaches 2.3 million members, 96% female, while employing a total of 53 thousand teachers both full time and part time (Quah 1998).

them as large financial systems controlled by foreigners without any accountability. Having ill intentions. However, the NGOs of Bangladesh are less corrupt and more efficient than the governmental organizations but they have only limited contributions.

POLICY IMPLICATIONS

Decentralization

Decentralization of all three branches of the government such as executive, legislative, and judiciary is needed in order to abolish political corruption. Ideally a system of representative government such as in the developed countries needs to be introduced with clear demarcation of responsibilities for the central, division, district, and sub-district levels of Bangladesh, corresponding to the four levels of government in the United States such as federal, state, county, and city/village/town. The heads and key decision makers of the three branches of governments at each of the proposed four level will be manned by the elected representatives. All existing civil services and the secretariat need to be abolished. The central government agencies will directly report to the cabinet members. This system will restrict the amount of excessive control given to the existing one level of government.

Because the existing governing body and military body are separately controlled there is a lack of control in the growth of the military. Military officers are seen as an elite group that live extravagantly. Frequently foreign assistance is used to support the military rather than other allocation. There has been some correlation between the escalation of the Indo-Pak conflict and Bangladesh's defense spending. (Rahman 2000). This increase in defense spending is unnecessary as Bangladesh is not directly involved with any foreseeable military conflict. In the international arena, Bangladesh is relatively powerless (with or without military expenditures) and should focus on alliances rather than an independent military. Bangladesh has no justification for having a military and they do not serve any purpose other than launching military coup. It needs to be abolished and the affected employees can be retrained and employed in productive sectors of the economy.

Privatization

Within the public sector of the economy there needs to be a removal of unnecessary inefficiencies. Many of the public systems run with high annual losses, wasting valuable resources that could be reallocated to other sectors. When public industries are unable to

provide efficient services, privatization should occur. Private industries are more apt to run efficiently as they are more concerned with profit maximization. Market forces should be allowed to decide the amount and price of goods through the laws of supply and demand. As competition increases the dead weight loss will decrease benefiting both consumers and market forces to freely allocate resources and to regulate monopoly power, deal with externalities, public goods, inequity, and business cycles. Government must not be involved in financial matters of any sort. All forms of market distortions need to be eliminated. This is what is the lesson of a first course in economics through out the world. But the lesson needs to be implemented.

Education Reform

No country in the world made any economic development without educating its citizens. Any other attempts for development simply do not work. All people of Bangladesh should be given the opportunity to better themselves by furthering their knowledge through education. Democracy, decentralization of government, and market operation all depend on education. Existing colonial education system is not suitable for an independent country aspiring economic development. It needs to be reformed in all levels. Schools should be well rounded in their offerings covering all subjects, most importantly math and sciences. Students should be given the opportunity to become educated for all types of career goals, as all are important to the prosperity of Bangladesh. Professional and technical education is still at the minimum. The capacities of such institutions are smaller than that of West Bengal or any other comparable states of India. The two year bachelor degree after 12 grades needs to be raised to a four year bachelor degree and examinations are to be more frequent than annual or after two or three years. It is possible for the country to produce thousands of technically qualified graduates who can find opportunities both in and outside Bangladesh. There is always a shortage of technical expertise everywhere, even in the developed world. The Soviet type specialized education institutions need to be merged in a larger general college or university where a broad based training in liberal arts and sciences should form the foundation of any undergraduate program. Although there is a resource constraint, an efficient allocation of public funds can achieve the educational goals.

CONCLUSIONS

No modern society made any economic progress without educating its citizen and reforming its colonial administrative structures. The simple laws of supply and demand create the most efficient market because competition requires a continuous cut of inefficiencies for mere survival. The lack of privatization leaves little motivation to decrease cost and increase revenue. Corruption and inefficiencies disappear with privatization and competitive market operation that limits the scope of the government to maintaining law and order, regulating monopoly power, providing public goods, and dealing with externalities such as pollution and resource depletion as well as dealing with business cycles. Government does not interfere with the market forces. Decentralization of government is a pre-condition for sustainable economic development. Sustainable economic growth and development should be seen as a priority in any poor country if it really wants to improve the standard of living of its average citizen. Three important ingredients are education, privatization, and decentralization with associated structural transformations. Currently, many developing countries continue to be poor uneducated countries filled with centralized administration, dictatorial rule, corruption and inefficiencies. The people of the ruling class know well what needs to be done. But they are unwilling to do so as their own power and possibilities to make good fortune for themselves will become diminished.

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