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Understanding Economic Development: Some Exploratory Ideas

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Contents

Understanding Economic Development: Some Exploratory Ideas[1]

WAHIDUDDIN MAHMUD

Introduction

I feel deeply honoured to have the opportunity of giving this Public Lecture. I apologise for the seemingly pretentious title of the lecture, particularly when I am speaking under the auspices of a research institution that has a long and rich tradition of studying the problems of economic development. Why do we need to rethink development economics? Since I am not going to tell you any mystery story, I assume I can give away the main conclusion of my talk at the very beginning. Despite vast efforts spent in explaining why countries differ so much in achieving economic progress, economists do not yet have much of a clue as to why countries like South Korea could make it while many others have miserably failed. Telling the contemporary less developed countries that they should follow the example of the East Asian miracle economies is like saying that, if you like to play good cricket, play like Sachin Tendulkar. We have even less understanding of how economic development works out in a longer-term framework; for example, say, why the economic growth outcomes have been so starkly different between Argentina and Japan, although the two countries had about the same per capita income around the beginning of the twentieth century.

The hypothesis that I would like to discuss is that economic development cannot be adequately explained within the traditional confines of economic analyses alone. The same economic policies may produce very different outcomes given the socio-cultural settings of particular countries. The functioning of the market system, in particular, the main vehicle of economic development, is determined not only by the quality of the regulatory framework under which it operates but also by the socio-cultural institutions

[1]BIDS Public Lecture 2021, Dhaka, 7 November 2021. The lecture has been substantially revised and it largely draws from the author's recent book: *Markets, Morals and Development*: *Rethinking Economics from a Developing Country Perspective*, Abingdon, UK: Routledge, 2021.

in which it is embedded. This calls for economists to be humbler about the strength of their analytical constructs of economic development and to embrace a more interdisciplinary approach, without of course sacrificing the analytical rigour that is the hallmark of their discipline. In particular, development economics could be much enriched by incorporating new ideas coming from other social sciences such as experimental psychology, political sociology and moral philosophy. To put it differently, while the mainstream academic field of economic development has so far largely kept itself aloof from other social science disciplines, the time has come to rethink this strict compartmentalisation in approaches to studying economic development.

The Socio-Cultural Settings of Markets

Economic development is accompanied by a process of institutional transformation in which traditional production technologies, local knowledge and informal behavioural norms are replaced or complemented by improved technologies, modern know-how and formal regulatory enforcement of business dealings. The less developed countries provide interesting case studies of how this transformation may take place in different ways, sometimes by creating frictions and undermining the impact of development interventions, but sometimes by resulting in beneficial socio-economic dynamics. Development economics can benefit much from a better understanding of how the so-called "informal economy" based on traditionally evolved behavioural norms interact with the introduction of a modern market economy with formal regulation.

The performance of an economy depends to a large extent on whether markets work badly or efficiently; and the functioning of markets, in turn, is determined to a large extent by the socio-cultural institutions in which they are embedded. To understand why some less developed countries perform better than others, it is thus important to analyse the functioning of markets in various formal and informal institutional settings that evolve over time. Shabana Azmi, the noted Indian film actress and social activist, once remarked that India lived simultaneously for three centuries; that is certainly true of the varying nature of markets in less developed countries, varying from informal *hats* and *bazaars* to modern shopping malls and financial markets. Such a snapshot of markets across various stages of development can provide insights, at least in terms of what we call in economic theory *comparative statics* even if not the dynamics, into the process of transformation of an economy. We often overlook in development policy analysis that such a variety of market institutions in less developed countries also make it difficult to predict the outcomes in a whole range of market intervention policies intended for promoting economic development.

All markets, in fact, operate within the boundaries set by the complex institutions of economic, social and political life with formal regulation, implicit rules and norms, and mechanisms of cooperation and coordination. In their seminal book on the neoclassical theory of general equilibrium, Kenneth Arrow and Frank Hahn ask the question: "What will an economy motivated by individual greed….look like?" and agree with the common-sense answer: there will be chaos (Arrow & Hahn, 1971, p. vii). According to Arrow, "the model of the *laissez-faire* world of total self-interest would not survive for ten minutes; its actual working depends on an intricate network of reciprocal obligations, even among competing firms and individuals" (Arrow, 1978). Back in 1739, the English Philosopher David Hume observed in his book *Treatise on Human Nature* that commerce and business can flourish only on a relationship of trust and honouring of contract. In the modern-day discussions on economic development, there is now growing recognition among economists of the importance of the so-called "social capital", consisting of mutual obligation, trust, norms and customs, as the "infrastructure" in which markets are embedded. As Kaushik Basu (a former Chief Economist at the World Bank) observes: while it is obvious that an individual's behaviour is shaped by these social norms, "what is less obvious is that an individual's adherence to certain social norms may be a *necessary* element in many economic models" (Basu, 1997, p. 8).

In every society, ethical norms evolve to set the boundaries for the otherwise self-regarding materialism of the market economy. An ethical element of trust enters in some measure into every business contract, without which no market could function. Arrow used the extreme example of the service of a doctor, who has to be trusted by his patients. Basu (1997, pp. 9-10) uses an example from day-to-day urban life similar to the following: why do you not walk away without paying the fare after a rickshaw ride on a lonely street? If you argue that you do not do so because the rickshaw-puller happens to be physically strong enough to forcibly extract the fare from you, then why does he not attempt to extract the fare a second time after you have paid his correct fare? These are matters of common values and norms in a society that underlie the working of the market economy. And it is not adequate to argue that there are legal enforcement mechanisms such as police and courts since these are themselves institutions that cannot perform without some minimum ethical standards.

Nobel laureate (1993) economist Douglas North, who pioneered the field of institutional economics explains how cultural and social values affect the "transaction costs" of economic dealings and can constrain or facilitate economic transformation. Institutions create the incentive structure in an economy, such as for unproductive activities like rent-seeking or for entrepreneurial innovations; the way economic agents take advantage of opportunities provided within an institutional framework, in turn, will change and gradually alter the institutional framework, for better or worse. According to North, economists' "preoccupation with rational choice and efficient market hypotheses have blinded them to "complexity of human motivation" and limit their understanding of not only why institutions exist but also how they influence outcomes (North, 1990, pp. 110-1). It is said that, before taking a consulting job overseas, Professor North insisted on spending at least six months in a country, absorbing its belief systems and its organization and institutional framework before offering his advice.[2]

Let me give an example from a recent news report of a Dhaka daily about how the institutional environment and economic incentives may interact, albeit in this case in a perverse way. The story is about the prevalence of extortion by muggers in a particular area of a district town in Bangladesh. To mitigate the problem, an influential community leader with a dubious political record came up with a novel idea. He set up a voluntary organisation of community police by recruiting those muggers to collect tolls at fixed rates

[2] Cf. The obituary article on Douglas North by Robert D. Hershey Jr., "Douglas North, a maverick economist, dies at 95", The New York Times (Nov. 24, 2015).

from all vehicles in return for safe passage through that area. The collected tolls were more than enough to compensate the muggers for what they used to earn before, while also allowing the community leader to line up his pockets – an ingenious institutional innovation, though at the cost of the local residents. I should add that this example is merely for the purpose of illustration and is not intended to underplay the positive role of social capital in achieving remarkable progress in Bangladesh in the social development indicators (Asadullah et al., 2014).

Evolution of Cooperative Behaviour

Economists have often struggled to explain why there is so much more cooperative behaviour in the world than the pursuit of self-interest would imply. Cooperative behaviour is indeed found to be quite strong and provides the basis for organisations in the economy. The application of the so-called Game theory, pioneered, among others, by Nobel laureate (1994) economist John Nash (portrayed in the movie *Beautiful Mind*), can provide insights on such behaviour of reciprocity that may evolve over time from the experience gained from interactive behaviour.

The most widely used example in this context is known as the Prisoner's Dilemma problem. It describes a situation in which two persons take decisions independently of each other knowing that the outcome for each one will depend on the action of both. Both can gain more by acting in good faith of mutual cooperation than without such cooperation. But the situation is complicated by the possibility that one will cooperate and the other will not, in which case the former gets the worst deal while the other gains the most. Without mutual trust, each of them in such a situation is likely to take the safe course of non-cooperation, suspecting that the other may outwit him by defecting and taking advantage of his offer of cooperation. This example of the game theory thus explains how the gains of cooperation cannot be reaped by unilateral "rational" behaviour. Maximising self-interest in such a case is not of course straight- forward. Each player chooses to go for the most he can get taking into account that the other player may not cooperate, which is known as the "maximum of the minimum" strategy.

But if the game is repeated over and over again, each player can gather experience about the reactive behaviour of the other. In an experimental set-up with numerous repeated rounds of the game, a strategy of reciprocity (or, one can call it less generously tit-for-tat) is found to be the winner by yielding the highest average gains per round of the game; the strategy is to reward cooperation of the other in the previous round by offering cooperation in the current round and punishing defection by defection in the same way. This is one way of explaining how cooperative behaviour may result from the expectations of reciprocity and may eventually become a social norm. But, while economists feel comfortable with the assumption of self-regarding calculative human behaviour, other social scientists may very well like to find explanations for such cooperative behaviour in other human traits like altruism, cooperative instinct, trust and various community-specific characteristics. In his ground-breaking work on the evolution of cooperation, Robert Axelrod, a political scientist, used the game theory framework to show how reciprocity interacts with a range of other social factors to evolve into a stable behavioural norm of cooperation (Axelrod & Dion, 1988).

There are even other ways of looking at the historical roots of how cooperative behaviour evolved in different communities. Some recent studies have found links between historical agricultural practices in various regions of the world with community attitudes toward cooperation. Some studies have found that cooperative behaviour is more common in the rice-growing areas of China, where rice production was dependent on the availability of water for irrigation, than in other parts of the country. The reverse may be true of Bangladesh (the original East Bengal) which historically attracted migrants from outside because of the lure of easy rice cultivation, entirely dependent at that time on monsoon rains and broadcast method of cultivation (that is, by throwing seeds on moist land without the need for seedbeds, transplantation and irrigation). One may wonder whether this has anything to do with the fact that microcredit, which essentially supports individual enterprises, has become so widespread in Bangladesh, while the once-heralded Comilla model of farmers' co-operatives of the 1960s could not eventually sustain due to alleged elite capture and conflict of interest among farmer groups (Khan, 1979). Whatever may be the historical origins of cooperative behaviour, economic development all over the world may now need increasingly more cooperative arrangements in many areas ranging from optimal use of scarce land and water resources to sustainable urbanisation and environmental protection.

The norms of civic behaviour of city-dwellers, such as obeying traffic rules or proper disposal of litter and household waste, affect the quality of urban life and liveability of cities, which in turn are related to aspects of economic development. The habit-forming nature of such civic behaviour can again be explained by the application of the so-called "Prisoner's Dilemma" problem discussed earlier. In this problem, city-dwellers will prefer a situation in which everyone abides by the rules since they all benefit from a clean city or a city where traffic rules are followed, but each of them may be tempted to cheat the system in the expectation that others will not; the result is widespread non-compliance, which is not the preferred outcome. However, there may be a learning process in which everyone may eventually realise that cooperating with each other in observing the rules instead of acting for short-run self-interest (a "rational" behaviour in theory) will be in the long-run interest of all. In the economic literature on "public good", however, one would treat this as the so-called "free-rider" problem that can be solved either by excluding the benefit to those who shirk their responsibility (not feasible in the examples cited here), or by imposing a municipal tax on all households to cover the cost of door-to-door collection of waste (may not be a desirable option for the taxpayers), or by strictly enforcing the rules (for which the city authorities may not have enough capacity). In comparison, the establishment of behavioural norms of cooperation through a learning process as described above is a more ethical and desirable goal to achieve.[3]

The learning process for cooperative behaviour in a "Prisoner's Dilemma"- like the situation described above is often facilitated by community initiatives, such as for waste management and cleanliness in the neighbourhood. Such initiatives can have a snowball effect as was once shown in the case of the Indian city, Kolkata. There are also examples of initiatives

[3]This particular application of the "Prisoner's Dilemma" problem is akin to the one originally discussed by Amartya Sen and later cited in Basu, Kaushik. 1997, pp. 11-2.

taken by businessmen and traders on their own for fair business practices that can benefit the business community as a whole, such as abstaining from marketing harmful products or not engaging in harmful price competition. In Vietnam, there was not much of a market regulatory framework when market-oriented reforms were introduced in the early 1990s for encouraging the growth of private businesses. The business communities themselves framed rules for self-regulation such as regarding fair competition, product standards and market integration through exchange of information. The subsequent success of the Vietnamese economy owed to a great extent to the way the businessmen and entrepreneurs could create the rules of the game themselves and relied on their own devices (McMillan, 2002, p. 58). However, the capacity for cooperative behaviour may vary across societies depending on the historical roots of how social norms evolved over time.

The 2009 recipient of the economics Nobel prize, Elinor Ostrom, was the first ever woman to receive this prize; her work as a political economist was mainly based on case studies from developing countries providing insights into how communities can manage local common resources. For example, she studied the management of the irrigation systems in Nepal to show how development projects can perform poorly when implemented by a central bureaucracy without local knowledge about the communities that are to be benefited from the project. She found an apparently paradoxical phenomenon: the large irrigation projects of the central government, with modern dams and canals often built with the support of foreign donors, seem to work poorly compared with the traditional rudimentary system of irrigation built and maintained by farmers themselves. Why?

An irrigation system, whether built with mud (as in the traditional system) or with bricks and concrete (as in the modern projects) essentially needs regular maintenance of the canals, so that the water diverted by the dam can flow from the upstream all the way to the farmlands that are at the far ends of the canals. The farming communities worked out a system of cooperation, in which the farmers downstream offered their labour to construct the dams and the canals in exchange for assistance by the farmers upstream to maintain the channels afterwards. While the details of the arrangement of this division of labour may differ from one community to another, the basic principle is the same. When the modern system was built, not much attention was given to the maintenance of the canals, while the traditional system of cooperation among farmers was also gone. The supposedly more efficient and cost-effective modern irrigation projects became dysfunctional with the eventual clogging of the canals.[4]

There are several lessons to be learnt from Ostrom's above analysis of how the designing and implementation of development projects can go wrong. Civil servants and donor agencies are more concerned with the construction of "prestige" infrastructure projects than with their eventual maintenance; they also tend to ignore the needs and incentives of the local communities. For civil servants, being involved in the construction phase of such high-profile projects are more rewarding than the more arduous and less glamorous tasks of supervising the routine work of maintenance in remote localities. The donor agency officials are more interested in meeting their spending targets and completing the projects than in evaluating the results. All this points to the need for involving the local communities in the designing and maintenance of such projects; in the case of the Nepalese irrigation projects, it is the farmers who would be most interested in maintaining an irrigation system once it is built. In Bangladesh, an evaluation by the World Bank in respect of the rehabilitation of local-level projects of flood management, drainage and river erosion control found that the original purpose of the projects was endorsed by more than 80 per cent of the people in the respective localities, but only one out of the 35 projects could be successfully rehabilitated; the neglect of the details of local circumstances and poor maintenance were found to be the main cause of failure (Mahmud, 2002, p. 14).

Governance and Norms of Morality

In the contemporary literature on economic development, there is a growing recognition of the links between the prospects of economic growth of a country with the quality of its governance. This new emphasis on "governance", originating mostly from the Bretton Woods institutions, can benefit from the earlier literature on the "social capital" and the institutional

[4] For a discussion on such issues, see, for example, Hareford (2005), pp. 181-5.

development of a society mentioned above. The usual policy advice is mainly to do with devising and enforcing appropriate policy reforms aimed at building business-friendly institutions, such as by reducing corruption, maintaining the basic law and order, ensuring property rights, or addressing the bureaucratic hurdles, all of which could reduce the currently high cost of doing business. However, these procedural and enforcement problems in the formal governance structure are only one side of the coin; on the other side are the issues of behavioural norms and ethical standards prevalent among various stakeholder groups in society. Administrative reforms towards enforcing accountability and reducing corruption among government functionaries are less likely to succeed without an understanding of how incentives for deviant behaviour arise and how behavioural norms are formed. This is also true regarding attempts towards preventing unholy collusion among market regulators and unscrupulous businessmen when such collusive behaviour has already become the norm.

The problem can, in fact, be more serious than what appears at a first glance. Any widespread unethical behaviour is obviously difficult to address because of the sheer magnitude of the problem. A less obvious phenomenon is that, beyond a certain tipping point, the prevalence of such behaviour becomes self-reinforcing and continuously erodes ethical standards. Consider, for example, the spread of the culture of bribery in government offices. When bribery is not so widespread, the individual official's financial benefit from bribes may not be worth the cost in terms of searching for a willing client and the risk of being reported and punished, even leaving aside the psychological cost of a guilty conscience. But this cost-benefit calculus of bribery may be reversed when such practice is so widespread that it becomes a behavioural norm with a lesser feeling of guilt while the risk of detection and punishment is also much less. The important lesson from this analysis is that unless an anti-corruption campaign is of a scale that can bring the prevalence of corruption well within the tipping point, corruption will again spread as soon as the campaign ends. If the campaign is prolonged enough, there will ultimately be even less need for punitive actions as new norms of ethical standards take hold, thus favourably altering the initial cost-benefit calculations of corruption along with the tipping point in favour of the selfcorrecting mechanism. The ethical standards are not thus given, but respond to the timing and extent of the application of formal deterrence mechanisms. A similar analysis by Mahmud and Osmani (2017, pp. 44-8) shows how, in a mature microfinance system as in Bangladesh, coercion in loan repayment can be gradually relaxed as the cost-benefit calculations of borrowers for repayment default are altered by habit formation and establishment of social norms of repayment.

There are numerous other areas of the functioning of the economy in less developed countries where legal and regulatory enforcement mechanisms interact with the evolution of moral standards. The lax enforcement of tax laws, for example, leads to a culture of tax evasion, while weak loan recovery mechanisms of the banking system may lead to a culture of wilful repayment default resulting in huge portfolios of non-performing loans. Then there are unscrupulous businesses thriving in an environment of lax regulation, and, in the process, driving out the honest ones. The result, for example, is factories that disregard safety and labour standards, or markets inundated by sub-standard drugs and adulterated foods posing grievous threats to public health.

In the absence of enforcement of regulation regarding product standards, the problem of marketing harmful products can be self-reinforcing for a more serious reason beyond the lack of moral standards of traders and businessmen. This is explained by the theory of market with imperfect information for which George Akerlof won the economics Nobel prize in 2001 (Akerlof, 1970). This theory breaks away from the traditional neoclassical market theory by assuming that buyers have much less knowledge than sellers about the quality of the products – an assumption that applies to a wide variety of marketed products in less developed countries. In such a market, even if there are mostly honest sellers to start with, they will be increasingly driven out of the market by dishonest sellers. In the case of food adulteration, for example, this happens in the following way: since the buyers offer a price with the knowledge that there is a probability – however small to start with – of getting adulterated food; this price will be a good incentive for the sellers of adulterated food, but less so for the honest sellers. So more dishonest sellers will enter the market and the buyers will know by experience of a higher probability of getting the adulterated food and will offer even less price; the process will continue until only adulterated food is supplied in the market unless the regulatory authorities start enforcing laws to punish food adulterators.

The governance dysfunction in the less developed countries may also manifest in many kinds of malfeasant rent-seeking activities, such as involving share market scams, or large-scale wilful loan repayment defaults or money laundering resulting in capital flight or unlawful grabbing of common property resources. Such malfeasant activities, which may do great harm to the pace and quality of economic growth, are perpetrated by the influential elite who benefit from a culture of patronage politics; as such, such activities do not fit into the category of behavioural norms among large sections of people discussed above. Modern institutional economics has advanced some hypotheses in this regard.

First, if the leading political and economic entrepreneurs are the beneficiaries of the prevailing system of governance dysfunction, they have little incentive to change the system; that is why a big jolt is needed to correct the moral compass of the system. Second, effective governance reforms seek to find entry points in which there are unexploited potentials for all stakeholders to gain from win-win compromises, such as mandatory enforcement of the factory environment may lead to productivity gains that can benefit both labourers and the factory owners;[5] but the space for such compromises becomes limited since it does not apply to interest groups who continue to thrive by unlawful rent-seeking activities outside the normal functioning of a well-regulated market economy. Third, a government embarking on a simultaneous campaign of law enforcement and moral suasion needs to have the confidence of the people in its integrity and its stance of a "social guardian" role, which is undermined by the widespread practice of patronage politics.

Broadly speaking, no society to start with is intrinsically more corrupt or more lacking in moral standards than another; it is a process shaped by

[5]Long before the IMF and the World Bank reinvented the term "governance", it was defined by Keynes as a way of reconciling conflicting group interests in the management of the economy.

political, social and economic institutions through which the behavioural norms and moral codes evolve and get perpetuated. Understanding those processes may sometimes provide better insights into the performance of an economy than those gained from the mechanistic approach of the Bretton Woods institutions in defining certain governance indicators and analysing and estimating the relationships between those indicators and economic growth by using cross-country comparisons. It also needs to be realised that, besides being interlinked with economic growth, morality in economic dealings is itself a highly desirable aspect of socio-economic progress like many other non-market aspects of well-being. While economic progress is most evident in GDP growth, if that progress starts diminishing the moral standards of a society, that society needs to revisit its values.

Measuring and Spotting Signs of Development

The foregoing discussions also raise the question of how to measure economic development. Among various economic statistics and indicators, gross domestic product (GDP) is perhaps the one that features most frequently in public economic discourses; it also often arouses much confusion and passionate political debates. Much of the controversies surrounding GDP (in common with other national income measures like GNI[6]) arise from the varying perceptions about what GDP stands for. When politicians claim good economic performance, they talk about growth in GDP. The critics of the concept of GDP point to its well-known shortcomings: it ignores non-income aspects of well-being, it does not take into account the environmental damage caused by economic activities, and it tends to ignore or undervalue things that contribute to the quality of life but are not amenable to valuation in monetary terms. Yet another important shortcoming of GDP, often ignored, is that GDP is estimated on the basis of market prices, which are a reflection of society's preferences for the marketed goods and services, but only with the given distribution of income. Had the distribution been different, the price

[6]GNI is estimated by adding to GDP the net income received from abroad such as income from foreign assets, but more importantly for many less developed countries, remittances received from the nationals working overseas.

configuration (along with the resource allocation for production) could be very different, resulting in different estimates of the size and growth of GDP.

Much of the confusion arises from the fact that GDP is a measure of material output (and services), not well-being. The first national accounts were estimated by Simon Kuznets immediately before World War II; it was primarily intended to provide a framework for managing the resources available to the wartime economy. James Meade and Richard Stone of Cambridge University, under the tutelage of Maynard Keynes, produced the first official and comprehensive set of national accounts; that framework still provides the basis of the modern national accounting system (Kay, 2004, pp. 38-40). Kuznets, Meade and Stone all won the economics Nobel Prize, respectively, in 1971, 1977 and 1984. The internationally agreed-upon standard set of recommendations about how to compile national income estimates, called the System of National Accounts (SNAs), are revised from time to time to finetune the estimates in light of the changes in the structure of the global economy and by finding ways of imputing monetary values to items that previously remained outside the national accounts (e.g., scientific discoveries or works or art).

Given the various shortcomings of GDP even as a measure of material living standards, let alone of well-being, there have been attempts to find other measures of economic development. The idea of gauging economic development by indicators other than GDP, such as the *Human Development Index*, or measures that reflect footprints of environmental damage, has grown out of dissatisfaction with GDP. There is scope for economists to continue to refine and develop such various indicators of development, each of which has its merits and shortcomings, but is helpful in highlighting various aspects of economic development. In doing so, they need to be, however, wary about new ideas such as ranking of countries by the so-called "happiness index"; the way such indices are usually estimated has little support even from the studies on experimental psychology (Kahneman, 2011, pp. 391-7).

When a visitor from a less developed country arrives at an affluent or a relatively more advanced country, he can see the difference instantly from casual observation; he does not have to check with the publications of the

World Bank or of the UNDP to find the relative ranking of that country in terms of per capita GDP or the *Human Development Index*. Knowing what those apparently visible signs of development are may sometimes help one to have a *reality check* on the claims of his government regarding economic development and may also reveal some missing elements of development in his own country. After all, a student of economics, doing elaborate statistical exercises in measuring and comparing economic development across countries, should not be accused of missing things which even the untrained eyes of a visitor can easily spot. Leaving aside a visitor's first general impression about how orderly the immigration procedures are at the entry airport, the signs of development will be obviously more detectable in the metropolitan areas since that is where economic development has the most impact. As an illustration, the following could perhaps serve as a tentative list of items:

- The quality of public transport; whether a time schedule is maintained and passengers get in and out at fixed stops and not in the middle of the road; the very look of the vehicles.
- How orderly the traffic is; compliance with traffic rules and the extent of sound pollution through honking; whether roads are well maintained and there are not many potholes; how much priority is given to pedestrian facilities, and the extent to which the sidewalks of main roads are crowded by hawkers and vendors and make-shift shops.
- The quality of tap water, the standards of food safety, the efficacy of the waste management system, and the availability of public toilets.
- The availability and quality of public libraries.
- The degree of etiquette and politeness people show in public places.
- The aesthetic beauty of the main riverside or the lakeside, that grows naturally with the development of urban amenities, as distinct from any artificial beautification projects that, more often than not, give a lacklustre look because of poor maintenance.

If the visitor happens to venture into the countryside, there may be a few visible signs of development, such as the outward look of the homesteads, the availability of power supply, or the nature of agricultural implements on farmlands. Also, in the above list, there may be other candidates for inclusion, but there is also no point in lengthening the list if a single indicator can represent many other hidden indicators. Notice that we have not included such indicators as the degree of air pollution or the number of pavement dwellers, since there may not be a regular pattern to match with economic development (the San Francisco area in the USA may have a higher proportion of pavement dwellers than in many cities in poor countries).

To an economist, such a heterogeneous mix of indicators may not have much meaning in explaining the development, since these may be variously related to development either as the ingredients or the results of development or merely as associated with development with apparently no causal significance. Even though these indicators may reveal various aspects of development, such as the state's capacity to provide civic amenities, the quality of investment in human and physical capital and the behavioural norms of people in their civic life, an economist is unlikely to be much interested in things like these that cannot be reduced to measurable indices. Moreover, most of these indicators are in the nature of "public goods" and are not directly related to households' private incomes as reflected in their living standards – the indicator of primary interest to economists in measuring economic development. One may still wonder why these apparently visible signs are so systematically and stubbornly related to economic prosperity and whether these indicate some underlying broader socio-cultural settings into which the functioning of the economies is embedded.

Unlike the casual tourist, a discerning economist will of course be interested indelving deeper to find causal connections. He may heed the advice given by Douglas North mentioned earlier and would possibly stay longer in the country if he is to give any policy advice to the government of that country. What signs will he be looking for to find what makes the economy work the way it does – or does not?

He may note how much time, trouble and speed money (that is, bribe) it takes to get even a simple thing done, like getting a permit to stay longer than originally permitted by his visa. Are things done more through personal connections or according to impersonal rules that do not discriminate between the elite and the ordinary citizens? He may be trying to assess the quality of human resources and the education system as reflected, say, in the number of expatriates in technical and managerial positions, and in the quality of the college and university graduates; whether many of these educated young seek jobs abroad, which may be a sign that the education they have received has not much contributed to their employability at home and also may indicate their lack of confidence in the country's economic future. Are there many large-scale infrastructure projects of only "prestige value" but not well-planned to serve their purpose? Even amid a general environment of deficient governance, do there still exist at least some government agencies that are well-resourced and professionally competent and able to identify problems, work out solutions and act promptly? Such dynamic agencies can potentially set examples for the work culture in other agencies, or at least can act as agents of change in their spheres of activity. The difficult part, however, is to put all these observations into a coherent framework, even though these observations could each lead to deep insights.

Concluding Remarks: Cross-Country Comparisons

Numerous studies have been undertaken to explain economic growth by cross-country comparisons. Despite vast efforts spent on econometric exercises with cross-country data, there has not been much credible evidence of growth being explained by the various global indicators of governance or business climate (along with the more conventional indicators representing, say, investment in physical capital and quality of human capital). The economics profession has come to realise that the effectiveness of particular policy reforms depends on the country's contexts, given that an economy is a complex system of informal networks, social norms, and formal rules and institutions. Even the World Bank (2005) admits that "different policies can yield the same result, and the same policy can yield different results, depending on country institutional contexts and underlying growth strategies." Surprisingly, the *levels* of many of the indicators correlate well with the *levels* of per capita income; which means that we know how the economy will look like at higher stages of development, but do not have much idea about how we can reach there. Moreover, while episodes of high growth for particular periods are not uncommon, high sustained long-run growth is extremely rare.

Given this "growth ignorance", telling the less developed countries that they should follow the example of the East Asian miracle economies is not very useful. In fact, much of the development literature has devoted a lot of futile effort to an exercise equivalent to the song of the once famous band called the Beach Boys: "I wish they could all be California girls (read: I wish they could all be East Asian Tigers.) Even among those East Asian miracle stories, there is not any unique model to follow; while South Korean industrialisation was mostly through the rise of state-supported big industrial conglomerates, Taiwan's emphasis was on the growth of small and medium enterprises. Governments have thus little alternative but to follow an experimental approach to the implementation of development policies – a principle that is expressed well by former Chinese leader Deng Xiaoping's oft-quoted dictum to "cross the river by feeling for the stones", or as implied by Nobel (1987) economist Robert Solow's comment in this context: "You have to grope your way."[7]

I would like to end this lecture by posing a rather speculative hypothesis. Establishing effective mechanisms of accountability at all tiers of governance seems to be a common factor behind all success stories of sustained economic development, and this may apply across the nature of ruling regimes – democratic, authoritarian or a mix of the two. Behind this common element of accountability lie the more proximate preconditions for good economic management such as efficiency and the primacy of public good over private gains through rent-seeking. As distinct from accountability, Amartya Sen would also like to add the notion of "responsibility" in the discharge of duty, say, by a public official; while the former can be ensured through administrative mechanisms, the latter is largely a matter of individual morality. Sen made this comment on a presentation of mine at a seminar held in Dhaka in 2020.[8]

[7] *New York Times*, September 29, 1991, p. E1; cited in McMillan (2002), p. 223.
[8] Seminar held in Dhaka held on March 9, 2020, organised by *Banglar Pathshala.*

The way accountability in the governance system is ensured in a well-functioning democracy is too well-known to need elaboration. Even with weak democratic institutions, the existence of enough space for civic activism and free media may ensure considerable accountability of a legitimacy-seeking regime. But the issue is more complex in the case of successful authoritarian regimes. In the case of the erstwhile authoritarian regimes in East Asia, the key to ensuring accountability lay in their quality of economic bureaucracies which were "technically insulated" from patronage politics and whose policies were subject to performance-based scrutiny. In China, the governance reforms introduced in the wake of economic liberalisation have put in place a hierarchical system of strict accountability within the communist party's bureaucracy regarding achieving economic targets. As one commentator in China has aptly brought out the contrast in the structure of performance incentives under democratic and authoritarian regimes: in democracy, politics is interesting while bureaucracy is boring; in China, the reverse is true.

Overall, one may be looking for a system of governance in which there are vertical mechanisms for *accountability* of the government functionaries at each layer of administration, as well as horizontal coordination across various government agencies. The opposite extreme is perhaps an unwieldy leviathan-like governance structure in which even the well-meaning and honest actors feel alienated. Although aware of the pitfalls of the system, they are unable to do anything about it on their own like the characters in Kafka's novels. A challenge for the development researchers may be to look for indices, or even a composite index, that could capture the formal and informal mechanisms of effective accountability across various kinds of political regimes.

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