Rethinking Economics from a Developing Country Perspective: Some Exploratory Ideas[1]

Wahiduddin Mahmud

Thank you, Binayak. It is a great privilege for me to be invited to deliver this lecture; and thank you also for making this event a way of promoting my book. Who says there is no free lunch, and I do not mean the lunch to be served at the end of this event. So, an extra thank you to BIDS

Why rethink economics? It is increasingly being recognized that there is something grievously wrong with the contemporary global economic order with its supremacy of the market - an economic order that is characterized by instability and unprecedented inequality amidst plenty and is posing threat to the very sustainability of the global environmental habitat. Economics as a discipline is derided, rightly or wrongly, for seeming to lend legitimacy to this market system that lacks compassion and is prey to private corporate interest. Students and policymakers are also increasingly being frustrated by a seeming disconnect between the real-life happenings and the economics they study or the economic policy advice they get. These concerns have led to a rethinking of economics as a discipline, but much of it has arisen in the context of the Western economies. Oxford and Cambridge Universities, for example, have even set up a network called *Institute of New Economic Thinking*.

My objective, or shall I say my mission, behind this book is to add a developing country perspective that is largely missing in these debates; and at the same time to reassess what could be called "useful economics" in the context of these countries. Now, that's a lofty mission and I can only hope to initiate a process of interrogating some ideas in the hope that others will join.

It is undeniable that knowledge in development policy analysis, as in economics and other disciplines generally, originates from the rich-country institutions, with the academics in the elite institutions there playing the agenda-setting and gatekeeping role. This may create a mismatch between what is academically rewarding within those institutional cultures and what the policymakers in the Global South may actually need for practical purposes. Similarly, economics textbooks originating from the West, such as Paul Samuelson's *Economics: An Introductory Analysis* is arguably the best-known textbook on introductory economics ever written; with its 19th edition since 1948, the book is replete with examples ranging from the US families, firms, labour unions and government activities to even the racial issues in that country.

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For the developing country students, this is certainly not the ideal way of relating textbook economics to real life experience.

Yet, economics students in the developing countries have one advantage; they have the opportunity of applying textbook market model to the actual functioning of markets in a whole range of institutional settings, representing various stages of development, from rural *hats* and *bazaars* to modern shopping malls. In the countless ways that they encounter economic dealings in their surroundings, there are always new insights to be gained from such dealings, if only they could take a fresh angle on the familiar. Shabana Azmi, the noted Indian film actress and social activist, once remarked that India lived simultaneously in three centuries; that is certainly true of the varying nature of markets in the less developed countries.

Analysing the markets and their institutional settings

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 not only by the quality of the regulatory framework under which they operate but also 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. The variety of market institutions in the less developed countries also make it difficult to predict the outcomes of market intervention policies, such as the enforcement of an anti-monopoly regulation or the introduction of a value-added tax.

It is no wonder that that some of the recent theoretical advances in economics not only have deep practical content but also originated from observing markets in the less developed countries. For example, George Akerlof and Joseph Stiglitz both won the 2001 Nobel Prize in economics (along with Michael Spence) for laying the foundation of what is now called the theory of markets with imperfect information; of them, Stiglitz got his idea from the rural credit markets in South Asia and Akerlof's theory is especially applicable to explain why adulterated food items pervade markets in less developed countries.

Akerlof's theory can be applied in a simple way to explain, say, why most of the milk available in the Delhi open market used to be once adulterated by the mixing of water with pure milk. How did this happen? Suppose, to start with there was only a small proportion of adulterated milk in the market. Since the buyers could not distinguish between the watered and the pure milk, they would be ready to buy at a price which would reflect the small probability of getting the adulterated milk. That price would be a good incentive for the dishonest seller, but less so for the honest ones. So more dishonest sellers will enter the market and the honest sellers will be discouraged. Buyers will then know by experience that the probability of getting adulterated milk has become higher, so they will offer even less price,

which in turn will bring in more dishonest sellers and further drive out the honest ones. The process will continue until only adulterated milk is available in the market. The situation began to improve in the Delhi market when the authorities started a campaign for improving the quality of milk by introducing inexpensive devices to examine the water and butterfat contents of milk at different points of the supply chain.

Akerlof had to find a market familiar to his fellow Americans; so, he theorised the problem of market with imperfect information in his seminal 1970 paper, “The market for lemons”, by using the example of the second-hand car market (‘lemons’ is a colloquialism for defective old cars and resembles the informational characteristics of watered milk in the Delhi market). But he actually intended the paper to give a theoretical structure to explain why “business in underdeveloped countries is difficult” (Akerlof 1970). In the affluent countries, this informational problem is solved by various means of quality assurance, such as product standardisation, labelling and packaging, and promotion of product branding for reputation. But this remains a serious problem in many less developed countries resulting in markets functioning poorly. In the absence of strong market regulatory measures and product standardisation, markets are often pervaded by inferior or even harmful products ranging from adulterated food items to low-quality medicines, thus posing serious threat to public health as well as resulting in various kinds of “transaction costs” for buyers in identifying good-quality products.

Let us take another example of how markets in less developed countries may work poorly, <u>and this one is mine</u>. It is a common practice in South Asia to use harmful chemicals (mostly, calcium carbide) to ripen fruits like mangoes, bananas, litchis and jackfruits. These chemicals are highly hazardous to human health and there are laws prohibiting their use; but these laws are only poorly implemented, if at all. Traders pick fruits before maturation to take advantage of the early-season high prices and also because of the ease of transportation of green fruits with minimum damage and ripening them artificially at the points of retail sale.

But there is more to it. For the farmers, they have to weigh the increasing risk of theft of the fruits during the ripening time against the lower prices they get for harvesting the fruits before the proper time. This again adds to the reason why the fruits need to be ripened artificially. While all the actors involved are looking after their self-interest, the extent to which Adam Smith’s so-called “invisible hand” of the market driven by self-seeking behavior results in public welfare thus depends on the socio-cultural settings into which the system is embedded.

In the markets for food items in the less developed countries, there are occasional price hikes, due to some supply shocks or due to an increase in demand sch as during certain festival seasons. For example, certain food items are specially in high demand in the Muslim majority countries during the fasting month of Ramadan. It is possible that market manipulations by trade syndicates may be partly to blame, which can be detected by any unusually high price

spreads between farm-gate, wholesale and retail prices. But in most cases, the phenomenon can be explained by supply lagging behind demand, given the perishable nature of the food items or their high storage costs or, in the case of imported items, the uncertainty in global supply and prices along with the time lags for import.

While traders are usually blamed by the media and the politicians for their *unethical* act of taking advantage of the market situation at a time of religious festivity, it does not occur to many that the moral responsibility must also then be borne in part by the relatively wealthy buyers who may choose to apply some moderation in consuming the items in demand, so that the prices rise less steeply and the limited supply is more equitably shared by all. An *ethical* comparison is also made sometimes by contrasting such price hikes with the so-called Christmas sales in the West. In fact, there is nothing ethical about those year-end Christmas sales, mostly consisting of clothing items. The store managers observe during the pre-Christmas shopping season which items are not in demand anymore, so that it makes perfect economic sense to put those items on sales instead of wasting storage space on them.

Fairness of the global economic system

I started by saying that we need to have a developing country perspective in assessing the global economic system. Let me give an example of how perspective can differ. Economic theory tells us that market exchanges between two willing parties, including foreign trade, should be beneficial to both parties. This side-tracks a deep moral issue concerning market transactions between parties with unequal economic power that may be regarded as 'exploitative'. If a beggar agrees to work sixteen-hour days in exchange for a bare minimum subsistence of food and shelter, the arrangement can be viewed as *unfair*, even though both parties may be rational, well-informed and both may enter the arrangement willingly.

Much of the debates on globalization can also be seen in the above alternative perspectives on the welfare implications of free market transactions; namely, within the narrow confines of neoclassical theory of trade based on static comparative advantage that tells us that both rich and poor countries can benefit from such trade; or in terms of the *fairness* in the distribution of gains from the arrangements, given the asymmetry of global power structure with the poverty of the poor countries and opulence of the rich countries. Jagdish Bhagwati's book titled *In Defence of Globalization* (Bhagwati 2004) represents the former viewpoint, while the latter viewpoint is reflected in Joseph Stiglitz's *Globalization and Its Discontents* (Stiglitz 2002).

The proponents of globalisation typically argue, and rightly so in most cases, that the poor countries would be poorer without freer trade. The critics, on the other hand, point out the various biases in the global arrangements, such as under the WTO, in favour of the richer and more powerful countries. The biases are reflected, for example, in the way patent rights are enforced or in selective

liberalisation of global markets in which exports from the industrialised countries have more to gain, while keeping restrictions on items of interest for the less developed countries.

We may even imagine a more neutral perspective from, say, from a Martian visitor observing our planet's economy. Rudiger Dornbush, the late MIT economist, once remarked that it is a reasonable guess that to the most striking puzzle for such an inter-planetary visitor would be as to why a worker in a less developed country makes a tiny fraction of the wage of a worker in the US doing a similar manual job. A possible answer to this query is to tell the Martian that he is being naïve and that he should go back to where he came from. But alternative answers could express concern not only about restrictions on flow of unskilled labour across borders (while those of capital and high-skilled manpower are mostly encouraged), but also about the trade barriers that are sought against products that use low-wage labour in poor countries.

It can be argued that if freer trade can be mutually beneficial for both poor and rich countries, it is up to domestic policymakers to see that those benefits are fairly distributed *within* the countries. As the Nobel Laureate (2008) economist Paul Krugman commented in an article in *The New York Times* (February 13, 1997): "None of the important constraints on American economic and social policy come from abroad". He argues that the US economy has enough resources to take far better care of the poor and unlucky than is currently done, and that if the policies in this respect have increasingly become "mean-spirited", that is a political choice. He thus concludes: "We cannot evade responsibility for our actions by claiming that the global markets made us to do it.".[2]

Lawrence Summers, while he was the Chief Economist at the World Bank in the early 1990s, wrote a memorandum to some colleagues making a *logical* case for the dumping of developed countries' toxic waste in poor countries. He argued that the cost of health-impairing pollution depends on the foregone earnings from increased morbidity and mortality and hence there is an 'impeccable' case for dumping toxic waste in the lowest-wage countries, presumably with some compensation to make it a win-win deal. On the same ground, he further made a case for the relocation of polluting industries to poorer countries, given the high transportation cost of solid waste. Further, since demand for cleaner environment for aesthetic and health reasons is higher in rich countries than in poorer countries with lower income and longevity, trade in goods that embody such pollution could be welfare enhancing.

While Summers' economic logic is exemplary, he made the mistake of putting into words uncomfortable implications that most economists would prefer not to draw in a memo that might be leaked to *The Economist* (February 8, 1992, p. 66; Hausman and McPherson 1996, p. 10). That of course created a lot of public outcries, especially from the progressive media. But for the students of economics, it is more important understand that, hidden behind the apparently neat economic logic, there are several important ethical considerations.

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[2] Reprinted in Krugman, P. (1998), pp. 79.

Measuring the economic value of life by earnings foregone is ethically distasteful in any case, but may be unavoidable in certain circumstance, such as in deciding about compensation for deaths caused by, say, a factory accident. But considering life to be of less worth in a poorer country than in a richer country is an altogether different proposition and will be morally unacceptable to many. If it is a question of two parties entering willingly into a mutually beneficial arrangement, then it raises the question of 'exploitation' through unequal economic power, as I mentioned earlier. Moreover, since the quality of environment is a "public good" not amenable to private market transactions, it is up to the respective governments to decide how they value the health-related well-being of their citizens. (Public good in economics are those which can be enjoyed by everyone at the same time, like parks or other public facilities).

One can also ask the question: even if such a trade in polluting goods or relocation of polluting industries may be mutually beneficial, given the poverty of the less developed countries, why should the World Bank spend efforts and resources to support such a seemingly unethical proposition; instead, why should not it focus on poverty alleviation in those less developed countries, which would contribute to ultimately weaken the logic of such a proposition? Clearly, an apparently neat economic logic can become very complex once the ethical considerations are brought to bear on it.[3]

Income inequality, wealth concentration and the price mechanism

At a time of unprecedented concentration of wealth in the global economy, one of the major sources of discontents about the discipline of economics is that it has not got much to say in its theoretical constructs about justice and fairness in income distribution. This is not only because of the premise of materialistic self-interest underlying the neoclassical economic theory, but also because of the self-imposed limitation of the discipline in avoiding making any value judgement in its quest to qualify as a science. As a result, there is no scope for accommodating even such a common-sense view of fairness that the value of an extra dollar is worth more to a beggar than to Bill Gates. Amartya Sen, for example, has often lamented about both these limitations of the economic theory, namely, the single-minded emphasis on self-seeking motive and what he calls the "informational crisis" of the theory in making any value judgment. Fortunately, he says, the real world is richer in human qualities than described in economics textbook (Sen 1984).

Unlike theory, however, studies in applied economics used for policymaking do implicitly admit inter-personal welfare comparisons through such estimates as those of real standards of living and prevalence of poverty across population groups. It is generally

[3] For a detailed discussion on this from a different set of perspectives, see Hausman and McPherson, (1996), pp. 9-16.

recognised that extreme income inequality is undesirable on moral grounds, which makes a case for providing social security to the disadvantaged and for using tax policies as a means of income redistribution. The problem, however, arises in determining what should be the yardstick of *fairness* in evaluating income distributional outcomes of a policy.

The moral case for income redistribution is, of course, mixed with economic arguments, made rightly or wrongly, such as whether providing social security for the poor adversely affects their incentives for participating in the labour market or to what extent there is a disincentive effect of high taxes on the entrepreneurial rich. On the other hand, inequality may also be considered to be a hindrance to economic development by adversely affecting social cohesion or by stymying the drive of the poor to improve their lot. The political debates between the conservative right and the social democratic left in the Western capitalist countries is largely couched in terms of their respective assessment of these economic consequences of redistributive policies, although such debates are more often driven by ideological beliefs than empirical evidence.

For example, an element of luck surely has a role to play in income distribution, which is underplayed both by pro-market conservatives who extol the virtues of entrepreneurship and effort, and by social democrats who put the blame of inequality entirely on the processes of the market economy. Poverty in a market economy may simply result from economic failure due to bad luck – the so-called "destiny risk" – so that society has a moral duty to provide 'insurance' for such failure. Similarly, much of the wealth concentration may be due to rent-like income earned by luck and not necessarily through entrepreneurship alone. In this context, the seeming complacency of the economics profession regarding Thomas Piketty's grim prediction of the inevitability of increasing wealth concentration under the prevailing capitalist system seems all the more incongruous (Piketty 2014). Cambridge economist Sir Partha Dasgupta, however, drew a bottom line to the moral case for income redistribution when he remarked that no country is so poor that it does not have the means to provide for the basic well-being of its entire population (Dasgupta 1993).

That the present-day market economy beholden to corporate business interests is not doing a good job manifests in ways other than in the income inequality that it creates as a direct outcome. One most striking example is perhaps provided by such precious stones like gold or diamond, which not only happen to be perhaps the least 'useful' among all minerals, but also the mining of which causes huge environmental and social damage to the local communities; remember the film *Blood Diamond*. As long as the market demand for gold and other precious stones remain as it is, the prices will remain high because of the limited supply and high cost of production. Economics textbooks cite the so-called diamond-water paradox to explain how scarcity in relation to demand defines an "economic good" and determines its market price; what is left out in this analysis is that the demand for such precious metals is derived not from their intrinsic value but to a large extent is "socially constructed".

Contrary to the economic theory of individual consumer behaviour, people often tend to use the material possessions of their neighbours as a benchmark for judging their own living standards, as reflected in the well-known idiom of "keeping up with the Joneses". This has implications for the psychological well-being of the disadvantaged in an unequal society. Even broader ethical questions are raised about the materialism and consumerism of the currently developed countries being taken as an "aspiration model" for imitation by the less developed countries, particularly in an age of globalisation. As argued by environmentalists, the adoption of such consumerism globally, driven by the modern-day capitalism, may become unsustainable given the limits to the earth's natural resources. Regrettably, the analysis of social constructs of consumerism remains beyond the scope of mainstream economics.

Back in 2011, Hollywood actress Angelina Jolie came under fire from the progressive media in the West for being featured in a Louis Vuitton advertisement for the company's expensive designer hand bag. A picture showing her with such a luxury item sitting in a wooden boat in a forlorn swamp in Cambodia was criticised to be like flaunting wealth in the backdrop of utter poverty of a poor country. The designer bag in fact belongs to a category of luxury items that are valued not for their usefulness but for the exclusivity and status symbol; such goods defy the law of demand in economics by creating demand by their very high price.

A much broader limitation of using the market price as the measuring rod of value is that it generally tends to ignore or undervalue things that contribute to the quality of life but are not amenable to valuation in monetary terms. This limitation applies to gross national product (GDP) which is estimated on the basis of market prices; in per capita terms, it is the single most accepted measure of economic performance of a country and across countries. In spite many innovative roundabout ways in which economists have tried to capture the value of non-market items, per capita GDP remains an inadequate measure of even the material well-being of a nation. Yet another less discussed shortcoming of GDP is that it reflects the society's preferences for the marketed goods and services only with the given distribution of income, which in turn determines market prices. Had the income distribution been different, the price configuration along with the resource allocation for production could be very different, resulting in different estimates of the size and growth of GDP.

The on-going global debate about privatisation of water supply is yet another example of how advocacy of the market economy can clash with moral values – in this case, regarding poor people's access to potable water. As water has increasingly become a scarce resource in many countries of the world, there are strong business lobbies for making water a marketable product; even many economists have also argued in favour of privatising the water market. Against this, there has been civic activism worldwide against 'commodifying' water on the ethical ground that access to potable water is a fundamental human right, a view that has been endorsed by the UN General Assembly in 2010 by an overwhelming majority votes, albeit with less enthusiasm from most of the industrialised countries, 41 of them abstaining from voting.

Economists have not also come to grips with how to account for the welfare of the future generation threatened by climate change and the environmental damage caused by current economic activities. For example, a time discount rate is used while doing cost-benefit analysis of public investment projects that may have, say, a 30-year lifetime; but the use of such a discount rate for a project that will entail environmental costs for generations to come has dubious moral validity. According to Nicholas Stern (2013), a former Chief Economist of the World Bank, many economic models grossly underestimate the risk of unmanaged climate change "because of the assumptions built into the economic modelling on growth, damages and risks" (Stern 2013). The controversy around measuring the costs of climate change has been rekindled by the awarding of the 2018 Nobel Prize to William Nordhaus for his work on the effect of climate change on future Global GDP.

Institutions, governance and economic development

Let's now move on to some related issues about economic development. An Indian academic colleague of mine has commented that the overall message he got from reading my book is that useful economics is necessarily eclectic, and that economic theories must be contextualised so as to analyse the functioning of markets or to understand economic development in the particular socio-cultural settings. That's indeed the message I wanted to convey. 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 regulation of business dealings. This transformation may take place in different ways, sometimes by creating frictions and undermining the impact of development interventions, but sometimes resulting in beneficial socio-economic dynamics.

All markets, in fact, operate within the boundaries set by the complex institutions of economic, social and political life with formal regulation and implicit rules and norms. 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 a growing recognition among economists of the importance of the so-called "social capital", consisting of mutual obligation, trust, reciprocity, ethical norms and customs, all of which together provide the "infrastructure" in which markets are embedded. That infrastructure of social and cultural values creates the incentive structure in an economy, such as for entrepreneurial innovations on the one hand, or on the other hand, for unproductive activities like various kinds of rent-seeking that lead to higher "transaction costs" for business. The way economic agents thus take advantage of opportunities provided within an institutional framework in turn will change and gradually alter the institutional framework itself, for better or worse (North 1990, pp. 110-1).

Let me give two opposite examples of how such incentives – beneficial or harmful - can be created depending on the quality of the social capital. The first example is from Vietnam where 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 there could create the rules of the game themselves and relied on their own devices (McMillan 2002, p. 58).

The second example is from a recent newspaper report 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 from all vehicles in return for safe passage through that area. The collected tolls were enough to more than compensate the muggers for what they used to earn before, while also allowing the community leader to line up his pockets. I should add that this later example is merely for the purpose of illustration and not intended to underplay the remarkable socio-economic progress achieved in Bangladesh, especially in terms of the improvements in the social development indicators. It is noteworthy, however, that while Vietnam's per capita GDP, adjusted for purchasing power parity, was only 10 percent higher than that of Bangladesh in 1990 (USD 1,673 compared to USD 1,518), it had become nearly 75 percent higher by 2020 (USD 8,200 compared to USD 4,680).

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. Much of this new emphasis on "governance" has originated from the Bretton Woods institutions; but surprisingly, the debate around this growth-governance links have been little informed by the earlier literature on 'social capital" and the institutional development of a society that I have mentioned. The usual policy advice is mainly to do with devising and enforcing appropriate policy reforms aimed at building business-friendly institutions, such as to reduce corruption, maintain the basic law and order, ensure property rights, or to address the bureaucratic hurdles, all of which could presumably reduce the currently high cost of doing business.

But, 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 problem of widespread malfeasant 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 self-correcting mechanism. The ethical standards are not thus given, but respond to the timing and extent of the application of formal deterrence mechanisms.

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, are factories that disregard safety and labour standards, or markets inundated by sub-standard drugs and adulterated foods posing grievous threats to public health.

I have already discussed Nobel laureate economist George Akerlof's theory that explains how the problem of marketing of harmful sub-standard products can be self-reinforcing by the very logic of the market mechanism, beyond the simple explanation of lack of moral standards of traders and businessmen. The problem can be remedied if the regulatory authorities start effectively enforcing laws for detecting and punishing producers and sellers of, say, adulterated food or sub-standard drugs, while also letting market prices ensure profitability for marketing standardised products.

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 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.

Despite vast efforts spent in cross-country growth comparisons, there has not been much credible evidence of growth being explained by the various global indicators of governance or business climate. The economics profession has come to realise that the effectiveness of particular policy reforms depends on the country contexts, given that an economy is a complex system of informal networks, social norms, and formal rules and institutions. 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.

Given this growth ignorance, telling the less developed countries that they should follow the example of the East Asian miracle economies is like saying that, if you want to play good cricket, play like Sachin Tendulkar. 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"[4]

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

[4] *New York Times*, September 29, 1991, p. E1; cited in McMillan (2002), p. 223.

"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 last year in Dhaka.[5]

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, 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 the 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 on 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. Bangladesh at the moment may represent a mix of the two.

Overall, one may be looking for a system of governance in which there is 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 growth researchers may be to look for suitable indicators, and possibly a composite index, that could capture the formal and informal mechanisms of effective accountability across various kinds of political regimes.

Thank you.

[5] Seminar held in Dhaka held on March 9, 2020, organised by *Banglar Pathshala.*