

3. THE POLITICAL ECONOMY OF DIRECTLY UNPRODUCTIVE PROFIT-SEEKING ACTIVITIES: LITERATURE REVIEW, EVALUATION, AND APPLICATION TO BANGLADESH

Tanweer Akram*

3.1 Introduction

Market distortions in international trade among states often create profit opportunities which do not seemingly contribute to national output. Indeed, it appears that most market distortions in international trade encourages rent/revenue-seeking behavior. These activities are discussed in the international trade literature as Directly Unproductive Profit-seeking activities (DUPs). DUPs have income distribution consequences and potentially can be a factor that accounts for the existence and the perpetuation of both tariff and non-tariff barriers, discriminatory trade policies, smuggling, and the emergence of the “informal sector.”

Section 3.2 provides a concise survey of the DUP literature. Proofs of the propositions stated are not given. Section 3.3 evaluates the approach of this literature in recent theoretical developments of international trade theory. Section 3.4 examines the relevance of DUPs in understanding the political economy of Bangladesh.

3.2 Literature Review

(a) Tullock [1]:

If a barrier is imposed on free trade for a small open economy (that is, an economy which is unable to alter its terms of trade) then there are welfare losses. However, empirical studies on “dead weight losses” appear to be rather small. These findings led a number of prominent economists to suggest that the traditional analysis of tariffs, monopolies, theft, and so forth has been unable to measure the true costs of such market distortions. Welfare analysis based on “dead weight losses” does not incorporate the cost of revenue collection, customs clearing, monitoring, lobbying, corruption, and so on. Furthermore, pertinent issues of concern are as follows: What use is the tariff (quota)-generated revenue put into? Is the revenue wasted? Does society benefit from the transfer of revenue? Do transfers promote inefficiencies and reward misallocation of resources?

The traditional welfare analysis ignores that there are welfare losses arising from inducing the state to put into effect a restrictive regime. Various interests use resources to try to prevent the state from placing such restrictions. A firm’s success in capturing rents (revenues) draws resources from

* Department of Economics, Columbia University, New York, USA.

other firms in the industry and even from outside the industry in trying to do the same. This also results in other firms in lobbying to prevent the state from imposing the tariff. Thus, resources are diverted into attempts to impose and resist transfers.

(b) Krueger [2]:

Krueger argues that there is competition for the rents generating from restrictions which the state imposes on international trade. The consequences of rent-seeking are as follows: (i) The economy operates below its potential; and (ii) private and social costs diverge.

Suppose the state issues import licenses. These then become valuable assets. Resources are used up to compete for such licenses. If import licenses are allocated on the basis of capacity, this will provide an incentive for excess capacity, underproduction, and inappropriate size of firms. If state officials decide on the allocation of the licenses, there is likely to be corruption and nepotism in the state bureaucracy.

Krueger investigates the qualitative importance of quantitative restrictions (QRs) in two developing countries (India and Turkey). She builds a formal model for rent-seeking behavior due to quantitative restrictions. She argues that quotas have additional welfare costs than tariff. Furthermore, in her model, the welfare cost is higher for import restrictions with rents than import restrictions without rents. Although it is difficult to observe the cost associated with rent-seeking it is possible to evaluate the production cost of rent-seeking. The value of rents is equal to foregone output (assuming constant marginal product of labor in alternative uses). The cost of rent is equal to the tariff equivalent and the value of rent. Krueger reports that in India rents are about 7.3 percent of the national income (1964), and in Turkey 15 percent of the national income (1968).

According to Krueger, the analysis of rent-seeking has considerable implications for trade theory. Firstly, a prohibitive tariff may be better than a non-prohibitive quota because that would rule out the scope for rent-seeking. Secondly, it may not be possible to rank-order the tariff equivalent of quotas. Thirdly, the more inelastic the demand curve, the welfare cost of tariff is likely to be less. Fourthly, with rent-seeking activities, competition need not be better than monopoly in terms of welfare. Fifthly, devaluation can be beneficial if it reduces the demand for import licenses and the amount of rent-seeking.

There are political implications of rampant rent-seeking behavior: Firstly, the state's attempt to limit entry into the "market" for rents risks the charge of favoritism; and, secondly, the pervasiveness of rents alters the perception of the economic regime. The accumulation of wealth is regarded not a result of one's industry but one's ability to "capture" rent. Market mechanism is treated with suspicion. The public becomes skeptical of the function of markets; such perceptions, in turn, provide the political environment that leads to more regulations. Thus, society ends in self-defeating cycles of more and more state interventions.

It could be argued that the preponderance of rents is likely to make incomes in society even more unequal since the more privileged are more likely to be in a position to obtain licenses and permits.

(c) Bhagwati and Hansen [3]:

Smuggling is an illicit form of trade that arises when the state bans or restricts the importation (exportation) of a commodity. It is often held that smuggling improves welfare because it facilitates exchange which could not otherwise take place. Since smuggling creates trade, albeit illegally, it is thought to be beneficial. But the state may prohibit/restrict trade in order to achieve specified objectives, perhaps even “non-economic” objectives. Hence, the welfare evaluation of smuggling must be made with reference to these objectives.

Bhagwati and Hansen examine the welfare consequences of smuggling. They consider the case of a small country with two goods, and fixed terms of trade. They assume that the smuggling transformation curve is less favorable than the terms of trade.

They show that smuggling is a welfare-reducing phenomenon. For non-prohibitive tariff, perfect competition in smuggling at constant cost less than the tariff-induced price, smuggling cannot be ranked to non-smuggling in terms of welfare. Furthermore, for non-prohibitive tariff, perfect competition at constant cost equal to tariff-induced price, trade and smuggling may coexist. In such a scenario, non-smuggling is better than smuggling, and the less the volume of smuggling the better.

They extend their analysis to perfect competition at increasing cost. They demonstrate that for non-prohibitive tariff, smuggling cannot be welfare ranked with non-smuggling when legal trade is eliminated. But under the same conditions, if legal trade is not eliminated, smuggling reduces welfare compared to non-smuggling. Next, they analyze the case of monopoly in smuggling. They show that for non-prohibitive tariff and constant cost, smuggling cannot be ranked to non-smuggling. With increasing cost, non-prohibitive tariff and trade eliminated, smuggling cannot be compared to non-smuggling. Under the same conditions but if trade is not completely eliminated, smuggling is inferior to non-smuggling.

Prohibitive tariff is one under which, in the absence of smuggling, the economy is in an autarkic mode. Hence, smuggling is welfare enhancing, irrespective of competition or monopoly in smuggling, and irrespective of constant or increasing cost in smuggling. They show that if legal trade and smuggling coexist with non-prohibitive tariffs and increasing costs in smuggling then monopoly in smuggling is preferable to perfect competition.

They argue that in order to achieve a targeted increase in the local production of the importable commodity, a tariff with non-smuggling is better than a tariff with smuggling. Bhagwati and Hansen claim that the gist of their analysis extends to the case of “quasi-smuggling,” such as over-invoicing and/or under-invoicing.

(d) Sheik [4]:

Sheik offers an alternative to Bhagwati and Hansen [3] model summarized above. They assume that smuggling has real costs in terms of two tradable goods. However, he assumes that smuggling requires a factor of production. As a result, he reaches different conclusions regarding the welfare consequences of smuggling.

In Sheik model, smuggling requires a non-trade commodity. In other words, smuggling uses a domestic primary factor of production. His model has two goods and two factors of production (say, capital and labor). Production techniques have constant returns to scale. Both countries have perfect competition.

Sheik opines that comparing smuggling with non-smuggling is analogous to comparing pre-growth status with post-growth situation in the immiserizing growth model. It is, hence, conceivable that non-smuggling may be welfare inferior to smuggling. However, improvement is possible if exports under smuggling is greater than exports under non-smuggling and imports under smuggling is less than imports without smuggling. Otherwise welfare is reduced. He shows that if a tariff leads to the elimination of legal imports due to smuggling, the conditions under which smuggling will improve welfare over non-smuggling are even less stringent.

In Sheik's model, since smuggling uses a non-tradable primary good, it shrinks the production possibility of the two tradable goods. A difference of Sheik model from that of Bhagwati and Hansen [4] is that the tariff inclusive price of importable does not change due to smuggling. Another difference is that in this model legal and illegal trades can coexist and smuggling can improve welfare; whereas in the Bhagwati-Hansen model the coexistence of illegal and legal trade always implies a deterioration in welfare.

(e) Bhagwati [5]:

In contrast to Kreuger's [2] earlier work, Bhagwati shows that the cost of distortion without lobbying is not necessarily less than the cost of distortion with lobbying. This reflects the second best nature of the problem.

In the first best situation, resources devoted to lobbying divert real resource. However, in the second best scenario, it is not inconceivable that resources being used for lobbying have negative social costs. Therefore, lobbying may actually improve welfare. Thanks to lobbying the cost of production may be reduced instead of being increased. He contends that in an economy with distortions it is not possible to make categorical statements concerning welfare. Rather one must rely on empirical analyses to determine the welfare effects of tariff and DUPs. Changes in welfare should be evaluated on a case by case basis.

According to Bhagwati, whether conventional measures of the cost of protection underestimate depends on its interpretation. The total cost of production is equal to the cost of protection plus the gain/loss from lobbying. He proves there is no theoretical ground for claiming that protection with lobbying is necessarily more detrimental to welfare than protection without lobbying.

(f) Bhagwati and Srinivasan [6]:

The formal commercial policy theory does not incorporate various types of rents in the welfare analysis of trade. In recent literature, various DUPs, such as those mentioned below, have been studied: (i) tariff (quota) seeking/lobbying; (ii) tariff (quota) evasion; and, (iii) revenue (rent)-seeking or lobbying.

Bhagwati and Srinivasan analyze and model revenue-seeking. They show that revenue-seeking may result in the reduction in importable output. The revenue may be greater than or smaller than the original revenue. Revenue/rent-seeking can actually improve welfare. They investigate under what conditions revenue-seeking is welfare improving. They argue that Kreuger's [2] claim that quantitative restriction is always worse than a tariff does not hold. If the state does not waste the revenue it obtains from tariff, then welfare worsening is not the only possible outcome when lobbies try to capture revenue. The diversion of resource will be beneficial if the shadow price of the factors being withdrawn from production and instead being used for revenue-seeking is negative.

They also show that, under revenue-seeking, a quota can have the opposite effect of its original intention of protecting an industry. The Metzler [7] paradox obtains. They demonstrate the non-equivalence of tariffs and quotas under such a regime. The non-equivalence arises due to the difference in the capital intensity in revenue-seeking and rent-seeking regime. Although quotas are generally worse than tariff, under revenue-seeking they can be better.

The true shift in production consists of two elements: Firstly, the production cost in the absence of revenue-seeking due to tariff; and, secondly, the cost (gain) due to the shift in the production from revenue-seeking. Hence, it is inappropriate to measure the cost of tariff as the sum of the cost of tariff and rents because there can be gains due to revenues/rents. Moreover, it should be noted that the market for rent/revenue-seeking is not perfectly competitive. Thus, the analysis of the cost of protection must pay attention to all the nuances. Indeed, the second best nature of revenue-seeking complicates the welfare analysis of tariff.

(g) Anam [8]:

Anam analyzes the normative effects of lobbying due to policy intervention(s). He argues that the welfare effects of lobbying depend on the direct effect of the policy constraints on price or on quantity. Furthermore, he shows that the "standard" comparative static welfare analysis changes when policy imposed by trade barriers brings about lobbying. Lobbying raises two issues: Firstly, the welfare implications of lobbying; and, secondly, the comparative static analysis of alternative

policies under distorted situations.

He maintains that although revenue-seeking (due to tariff) can increase welfare, it is impossible for rent-seeking (due to quotas) to improve welfare (assuming that the quantitative restrictions are the only form of distortion and are defined in volumes exclusively).

He lays down two propositions: Firstly, a welfare improving paradox cannot occur if distortion is created by a fixed quota, whereof the quota forces the trade volume to be less than what would be obtained in a market regime. Secondly, if consumption inferiority is ruled out, a welfare improving paradox due to revenue-seeking (with a distortion due to a fixed tax) arises if and only if the tax creates production distortion. A necessary condition for lobbying to be welfare improving is that the shadow prices of factors be negative. When resources are spent to “capture” revenue/rent due to distortions, the standard welfare results change.

Anam shows that with quotas and competitive rent-seeking immiserizing growth is possible. He claims that the ambiguity of the welfare consequence of illegal trade with revenue-seeking disappears when the effective terms of trade are equal to the domestic price ratio. Illegal trade/smuggling continues to be welfare improving when it replaces higher domestic cost of production. He argues that, with revenue-seeking, if the foreign offer curve is elastic, even for a large country, the optimum tariff is zero.

According to the theory of policy intervention, the optimal policy is to tackle the problem at the source of distortion. He argues that when resources are used to obtain revenue, policy interventions lead to two types of distortions: firstly, the usual marginal divergence; and, secondly, production is inside the transformation curve. The latter can offset the optimality of marginal divergence in attaining a non-economic (social) objective.

(h) Bhagwati and Srinivasan [9]:

Directly unproductive profit-seeking activities (DUPs) are the set of activities that generate profit (income) without any direct contribution to output. However, as argued above, DUPs may paradoxically result in the improvement of social welfare in a distorted environment. DUPs can be either policy induced, such as tariff-evasion, or non-policy induced, such as theft.

Bhagwati and Srinivasan deal with policy induced DUPs. They classify DUPs into two major categories: (I) intervention-seeking DUPs; and, (II) intervention-triggered DUPs. The first type of DUPs can be further classified as follows: (Ia) Quantity-intervention seeking DUPs; and, (Ib) Price-intervention seeking DUPs. The second type of DUPs can be further classified as follows: (IIa) DUP lobbying ((i) Quantity-intervention-triggered lobbying, and (ii) Price-intervention-triggered lobbying); and, (IIb) Intervention-evading DUPs ((i) Quantity-intervention-evading DUPs, and (ii) Price-intervention-evading DUPs).

They establish the following: Firstly, if a distortion causes DUPs and it is the sole distortion in the economy (assuming it is a quantity constraint), then there cannot be any welfare improvement. Secondly, if the sole distortion is a price distortion, DUP lobbying can improve welfare (unless distortion effects productive efficiency). If the need to obtain quantity constraint arises, the best way is to use either tax or subsidy in production or consumption.

Bhagwati and Srinivasan also derive the following results: Firstly, it is not possible to uniquely rank DUPs-related distortions due to price and quotas. Secondly, they analyze the relationship of shadow prices to market price in the presence (absence) of DUP lobbying. They show that the equivalence of the shadow price and the market price is exactly opposite in the case of quantity and price distortions, depending on whether the initial condition is DUP lobbying free or not.

(i) Bhagwati [10]:

Bhagwati [10] provides an overview of DUPs, such as tariff-evasion, premium-seeking, revenue-seeking, tariff-seeking. He discusses the common themes, and proposes analytical categories in terms of their welfare impact and puts the existing analysis into perspective.

The present distinction between productive and unproductive activities is not dissimilar to the classification made by Physiocrats and more recently by Marxists. However, Bhagwati claims, the current literature on DUPs puts the analysis with a proper basis in neoclassic economic theory. The taxonomy of DUPs relies on the distinction between distorted and non-distorted situations. DUPs are not confined to the public sector, DUPs can exist in the private sector too, such as theft, altruism-seeking, favoritism, discrimination, and so forth. Another way of classifying DUPs is from the perspective of the law of the land: legal DUPs, and illegal DUPs. Notice, resources devoted to DUPs in a distorted context can be welfare improving.

There are four critical classes of DUPs: **Category 1:** The economy is both distorted before and after DUPs. **Category 2:** The economy is distorted before DUPs but not afterwards. **Category 3:** The economy non-distorted before DUPs but is distorted afterwards. Monopoly-seeking and tariff-seeking illustrate this category of DUPs. **Category 4:** Initially the economy is non-distorted and it remains non-distorted in spite of DUPs.

There is a fundamental difference between situations where the economy is initially distorted (Categories 1 and 2) and initially non-distorted (Categories 3 and 4). Bhagwati argues that for initially distorted economy immiserizing outcome is possible, whereas for initially non-distorted economy it is not possible.

He puts forth the following proposition: When quantitative restrictions distortions trigger DUPs, the shadow price of a primary factor cannot be negative but when the sole distortion is price-related, the shadow price can be negative.

3.3 Evaluation of the Literature and Further Issues for Research

The analysis of DUPs have clearly enriched the international trade literature. Economists are more aware of the problems that arise due to market-related distortions and also the second best of policy issues when the economy's distortions span across markets. The analysis of DUPs in economics is by no means settled or complete. Theoretical work on DUPs have not been sufficiently supported by empirical studies of DUPs even in advanced capitalist economies, such as United States and Japan, let alone less developed countries, such as the Philippines and Bangladesh. Hence, an important area for further study is the empirical examination of the causes and the effects of DUPs.

Game theory can profitably be applied to the DUP literature. Various interest groups and governments can be regarded as players in quest of profits and rents. Furthermore, extensive forms of game can be used to model various stages of rent-seeking. Not all interest groups act simultaneously. Some groups act first while others react once policies are instituted in the rent-seeking game.

Furthermore, it has been assumed that there is perfect and symmetrical information for all parties. This assumption should be relaxed. Uncertainty should also incorporated into the DUPs literature to further the degree of realism in these models. Are there increasing returns to scale in the markets for rents and revenue? If so, the models of rents/revenue-seeking behavior could be illuminated by the economies of scale. Does DUP explain the propensity of trade liberalization negotiations to break down? How does DUP effect international trade treaties and domestic politics? A positive theory of the political economy cannot ignore the cardinal role of DUP on national politics.

It seems that the DUP approach can elucidate further various problems in international trade. The scope of DUP-type modeling in economics is considerable; further research and extension of this literature will be useful not only for heuristic purposes but also for policy formulation and subsequent cost-benefit analysis. For international trade theorists in quest of understanding the political economy of allocation and re-distributive policies the theory of DUPs continues to be a key research area.

3.4 An Observation of Directly Unproductive Profit-seeking Activities in Bangladesh

This section examines the relevance of the concept of directly unproductive profit-seeking activities in understanding the political economy of Bangladesh. Bangladesh is a highly stratified and economically underdeveloped society. The World Bank [11] states that, in 1988-89, the highest quintile of the population obtained 46.2 percent of the national income and the lowest quintile obtained 6.6 percent of the national income. The statistics on the distribution of land are revealing: As of 1978---apparently the latest figures on land holding available is from 1978---49 percent of the

land were owned by the top 10 percent of owners, the smallest 10 percent of the owners owned merely 2 percent of the land. Consider other social indicators: Adult literacy is 35 percent, based on a rather lax standard of enumerating “literacy.” Moreover, the gender gap in literacy rate is acute. Literacy rate of all ages is approximately 25 percent. Although primary school enrollment is 70 percent, drop out rate is high, especially in the rural areas and more so for the girl child. In the urban areas, nearly 57 percent of population have access to electricity; in the rural areas, about 5 percent of the population have access to electricity. These figures provide some indication, however superficial the statistics may be, of the depth of economic deprivation, the uneven access to material resources and life opportunities in Bangladesh.

The level of the development of the forces of production and production relations in society shapes the structure and organization, and the goals of the state. The state also effects class formation in society. Bangladesh’s social structure, its long history of undemocratic, authoritarian politics, and the legacy of military rule have created the objective and subjective conditions for making directly unproductive profit-seeking activities pervasive throughout the economy. Indeed, the main characteristic of the Bengali ruling class is its propensity to capture rents and revenues with little productive endeavor. The state in Bangladesh caters primarily to the needs of the segment of the ruling class in power. Thus, state intervention in the economy has magnified the maldistribution of wealth, and exacerbated regional and urban-rural disparities in income and the level of human development. State economic intervention in terms of state expenditure, monetary, financial and credit policies, commercial policies, industrial regulations, subsidies, taxation, and so forth, have benefited the well-off. Whereas in advanced capitalist economies the chief purpose of the capitalist state is to create and sustain conditions conducive to the expansion and accumulation of capital, in an underdeveloped country, like Bangladesh, the state is an instrument for venturing in directly unproductive profits-seeking activities by creating monopolies and barriers to entry, providing licenses and special permits, and offering other advantages to a small minority. In advanced capitalism, the semblance of political democracy stays intact because to establish class hegemony coercion is not required, at least in metropolitan areas. Of course, when the “vital interests” of the ruling class of advanced capitalists countries are challenged, even in a minimal fashion, in the international sphere, it is crushed ruthlessly, without any mercy or concern for the human rights of the peoples of the Third World. However, in Bangladesh and other undeveloped countries, the ruling class frequently resorts to direct violence, as experience testifies, to consolidate its grip on power, advance the sectional interests of persons and groups allied with the government, and quell civic protests, trade union campaigns, student activism, investigative journalism, publications, or any thing that might challenge its dominance. The underdevelopment of productive forces manifests itself in the behavior of the Bengali ruling class in two ways. Firstly, it relies on unproductive profit-seeking activities for accumulating wealth. Secondly, due to its ideological insecurity it fears even feeble provocation to its authority. Thus, it dispenses dissent and defiance with coercive means.

The state and the ruling class is highly dependent on foreign aid [12]. The magnitude of external debt (\$13.3 billion in 1993), net multilateral borrowing (\$745 million in 1992-93), capital grants (\$660 million in 1992-93) underestimate the extent of the state’s and the *rentier* class’s dependency on foreign assistance because domestic resources that the state obtains through tariff on

trade, value-added taxation, and other sources are often generated by activities supported by foreign donors. Directly unproductive profit-seeking activities in both legal and illegal forms coexist in Bangladesh. Protectionism, tax evasion and avoidance, corruption, state asset depletion, racketeering, outright theft, obstruction to the rule of law, use of terror and violence to promote small group objectives, and so on illustrate the vast dimension of unproductive profit-seeking activities in Bangladesh.

Historically the military has been one of the most important player in the politics of Bangladesh. The armed forces are able to capture state power in Bangladesh largely because the means of production are underdeveloped and the civil society is weak. Capturing political power has provided the military with considerable material benefits in the form of higher wages, bonuses, a remarkable welfare system---the most developed section of social program in Bangladesh---of subsidized food, clothing, health care, education opportunity, overseas trips, paid vacations, entertainment facilities, loans, and real estate. The military officer class has established rapport with the commercial and industrial lobbies in Bangladesh.

Bangladesh faces enormous difficulty in mobilizing domestic resources. The level of economic activity does not generate enough revenue to finance development projects to build its infrastructure, investment in human capital, growth-enhancing public spending, and anti-poverty social programs. The state does not have the tax administrative capacity to fully collect the revenues to which it is entitled. Most of the internal revenue of the state derives from indirect valued-added taxation based on consumption. Revenues obtained from income taxes and other direct tax are low. Only a small number of people pay incomes taxes. The ruling class resorts to numerous schemes to avoid and evade taxation. Tax structure in Bangladesh is regressive and it places undue burden on middle income groups.

The high level of bad debt is another indication of rent-seeking in Bangladesh. Under the pretext of industrialization, the dominant sections of the ruling class borrowed heavily from the development financial institutions. However, instead of investing in plant and equipment, and raw materials for industrial projects, they diverted the state subsidized loans into real estate, the hoarding of gold and other precious metals, trading and various commercial ventures, and in secret and illegal overseas accounts. Conspicuous consumption (for instance, massive wedding, luxury mansions, fancy automobiles, useless overseas “education” for off-springs) is another favorite unproductive activity of the *rentier* class in Bangladesh. Small wonder most of these loans are outstanding: Indeed, the borrowers are intent on never repaying. Although the state, under various governments, has announced programs to punish defaulters, no concrete measures have been taken to recover the debt owed to the public. Occasional state threats to punish the defaulters without any subsequent action have ruined state credibility.

The colossal failure of public enterprises in Bangladesh, generated by corruption, mismanagement and nepotism, presents a heavy financial burden on the state. During the financial year 1993-94, public enterprises incurred a loss of US\$500 million, nearly 2 percent of Gross Domestic Product (GDP). These losses are financed by lending of public commercial banks. This

has a detrimental effect on the portfolio quality of public commercial banks and in turn creates a higher interest rate margin. Attempts to reform public enterprise have not brought about market discipline to the management of public enterprises. The public enterprise sector incurs higher costs than the private sector and obtains much lower rates of return. The poor performance of public enterprises requires state subsidies for their continued operation. Such subsidies increase fiscal deficits. Moreover, state support for inefficient public enterprises crowds out private investment. It also diverts expenditure from the social sector and investment for infrastructure. The poor quality of basic and non-basic commodities produced by public enterprises affects Bangladesh's industrial competitiveness in the world economy.

Lucrative government contracts give ample opportunity for the members of the ruling class to engage in unproductive profit-seeking activities. The system of awarding government contracts is not transparent. Hence, projects are selected and approved more for their ability to render rents to the members of the ruling class instead of bringing about social benefits. Industrial and infrastructure deals are structured to generate bribes, kickoffs, consulting fees, "jobs for the boys," and distributive benefits to vested groups.

Though the ruling class in Bangladesh is urban-based, it preserves its feudal ties with the upper land-holding class in the rural areas. The agriculture sector is significant in Bangladesh's economy. Share tenancy, growing landlessness, highly imperfect credit market, in combination with product and land lease markets in which the same set of feudal relations arise, characterize the agrarian structure in Bangladesh. The rural landowners consume most of the surplus instead of reinvesting it in expanded production. The benefits of state agricultural and fertilizer subsidies, and irrigation policy have been directed toward the rural landowners because their support is essential for extending the domination of the urban bourgeoisie. To be sure, the possibility of land reform is virtually nil because of technical and political reasons. The "technical" reasons are: Even "large" land-holdings in Bangladesh are comparatively small, the amount of unused remaining land is also marginal, and imposed collectivization is unproductive, coercive, and inefficient. The political obstacles to land reforms arise due to the lack of any popular organized demand for it. Such reforms would alienate the petty bourgeoisie and cause considerable violence and disturbance in rural Bangladesh. The major victims of such social disruption would be the most disadvantaged sectors of the peasantry.

While capital markets can play an important role in economic development and in generating funds for real investment in the economy by raising equity, selling debentures, and by allowing investors to reduce the risk by diversification and hedging, the stock market has simultaneously enlarged the scope of directly unproductive profit-seeking activities in Bangladesh. Firstly, there are no effective control or surveillance of insider trading. This allows the privileged members of the ruling class who have advanced and privileged access to state and corporate information to gain from trade, whereas the small shareholders can rely only on publicly available information and lose from insider trading. Secondly, the inadequate standards of financial statements enable the company management to provide misleading statements about its financial conditions. Thirdly, murky practices are left unchecked in the capital markets.

The exploitation of natural resources, dumping industrial wastes without any regard for Nature and laws regulating environmental pollution are forms of unproductive profit-seeking activities that are increasing in Bangladesh. Wastes, originating from production in leather, textile, chemical industries are callously dumped. The state does little to regulate environmentally harmful activities, such as emission from mini-taxis, heavy transport (truck and buses). Environmental degradation effects the poor the most.

Non-government organizations are quite active in many areas in Bangladesh. The role of non-government organizations, particularly those funded by overseas capital, is controversial. The non-government organization status is often merely a tactic for securing tax advantage to profit-making activities. Non-government organizations follow the orders of its donors whose objective function is not necessarily identical to that of the people of Bangladesh. Often there is convergence of interests between the dominant class in Bangladesh and the foreign donors who fund non-government organizations. Non-government organizations widely vary in their objectives, programs, operational characteristics, ideology, and management style. There are both progressive and reactionary non-government organizations. Reactionary non-government organizations represent the neo-globalist agendas of population control guided by Malthusian ideology, dissemination of conservative religious ideology supported by various groups such as Mideast Islamic fundamentalist of different hues (Saudia Arabia, Iran, and so forth) and Euro-American right-wing groups (such as Mormons, Christian evangelists), and the promotion of the goods and services of trans-national corporations through bilateral and multilateral tied aid, expatriate consultancy, and dumping of surplus commodities. Progressive non-government organizations focus on promoting literacy, education, vocational training, public health and reproductive choice including abortion and child care, human rights including women's rights, political and social struggle for justice, and so forth. Such non-government organizations face stiff financial constraint and rely mainly on domestic resources. Obviously, progressive non-government organizations are unlikely to be funded by international donors and the local ruling class. It should be recognized that non-government organizations cannot be substitute for either political organizations of the working class and the peasantry or accountable, democratic, and decentralized state administration.

Even trade unions are not free from activities that can be classified as directly unproductive. Trade unions represent a segment of the formal workforce, particularly in the public sector. Most of the labor force, however, are employed in the informal sector and the agricultural sector. Few trade unions are organized democratically. In fact, trade unions are controlled by the major political parties, and dominated by unaccountable bosses. As a result, unions do not reflect the interest of rank and file members. Union leaders engage in shady practices to promote their personal interests.

Working class and popular participation in politics is limited, despite the existence of a notional democratic apparatus. Since the ruling class possesses greater wealth, they can readily use this to influence, directly or indirectly, the political process and policy agenda to suit their interests in a number of ways, such as through campaign financing, voter mobilization, access to media, control of information, and often corruption and nepotism. The high degree of centralized administration,

located in urban areas, effectively disenfranchises the rural masses from political participation. The state apparatus serves to legitimize the rent-seeking actions of the mainly Dhaka-based ruling class and reduces public interest in the affairs of civic society.

The ruling class in Bangladesh, however, is not homogenous in its ideological orientation and material objectives. While its main objective is the accumulation of private wealth, not every member of the ruling class is keen on doing so at the expense of the public or wishes to engage in illegal activities, outright fraud, dishonest and corrupt practices, and financial and legal manipulation. There are many businesspersons, civil and military functionaries, writers, journalists, professionals, students, and men and women of integrity and decency. Although they are members of the ruling class, they seek to earn profits in accordance with the normal rules of the game in capitalist society, that is, by producing goods and services, rather than extracting economic rents. The national bourgeoisie has entrepreneurial potential. Historically the patriotic segment of the national bourgeoisie has played the leading role in the national language movement, anti-authoritarian struggles, and provided leadership for national liberation.

Despite problems of collective action and the global onslaught of neo-liberalism, the potentiality of democratic transformation of Bangladesh is far from bleak. The state's role in Bangladesh is not permanently fixed but shall evolve in the course of historic development and the changes of the mode of production. The institutions of civil society do influence public policy. A unified struggle for social justice, based on a positive vision of hope, freedom, compassion, and universal humane values can create democratic political institutions and improve social relations. The reestablishment of parliamentary democracy, the achievements of some non-government organizations and dedicated activists, the women's movement, the renewed resistance to fundamentalists, the social and cultural heritage of the language movement, rich humanist tradition in Bengali literature, and secular values are the foundation of social justice, democracy, and peace.

3.5 References and Notes

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