

The State, Institutions, and the Challenge of Development in Bangladesh

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1.0 Introduction

In order to understand the challenges of development in Bangladesh, this paper attempts to examine the linkages between the state, institutional effectiveness, and the problems of development. In doing so, the paper systematically reviews extensive literature on the state, institutional effectiveness, and the challenges of development in Bangladesh focusing issue of governance. Considering the fact that the state is an important political actor, this paper first attempts to outline the understandings of the state. In other words, the paper does not intend to define the state but rather endeavour to show the understanding of the state. The paper then critically examines the degree of state intervention in promoting growth and development, and the nature of the Bangladesh state. And finally, it attempts to recount conventional accounts of the Bangladesh state and show the challenges of **governance** in promoting development under the auspices of the state.

My current understandings of the state have been profoundly influenced by a variety of intellectual debates. By far, Max Weber offered the most influential definition of the modern state. He defines the state as a human community that (successfully) claims the *monopoly of the legitimate use of physical force* within a given territory. As he suggests (1978: 54), "a compulsory political organization with continuous operations will be called a "state" insofar as its administrative staff successfully upholds the claim to the monopoly of the legitimate use of physical force in the enforcement of its order". Hay and Lister (2006) rightly observed

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that two aspects of this definition are particularly important. Firstly, the state for Weber is a set of institutions with dedicated personnel. And secondly, Weber regards the **modern** state as wielding a monopoly of authoritative rule-making within a specific territory. Thus, this definition provides, , the basis and/or point of departure for much contemporary reflection on the state (Hay & Lister, 2006). Drawing heavily on Weber's idea, many scholars have tended to emphasize the state's institutional character (as an organization or set of organizations), its functions (especially regarding the making of rules), and its recourse to coercion ("monopoly of the legitimate use of physical force") (see Migdal, 1994: 11). In this view, "[t]he essence of stateness is", in the words of Fukuyama (2004: 8), "*enforcement*: the ultimate ability to send someone with a uniform and a gun to force people to comply with the state's laws". Reuschmeyer and Evans (1985: 46-47) argue "the state to be a set of organizations invested with authority to make binding decisions for people and organizations juridically located in a particular territory and to implement these decisions using, if necessary, force". Mann (1986a: 26) sees the state as a power organization that engages in "centralized, industrialized, territorialized regulation of many aspects of social relation". Here "power" denotes what Mann suggests is infrastructural power: "the capacity of the state actually to penetrate civil society, and to implement logistically political decisions throughout the realm" (Mann, 1986b: 113; as cited in Migdal, 1994: 11-12).

In his *Strong Society and Weak States: State-Society Relations and State Capabilities in the Third World*, Migdal (1988) discusses the capabilities of states for achieving the kinds of changes in society that their leaders have sought through state planning, policies and actions. Migdal (1988: 4-5) argues that "capabilities include the capacities to penetrate society, regulate social relationships, extract resources, and appropriate or use resources in determined ways. Strong states are those with high capabilities to complete these tasks, while weak states are on the low end of a spectrum of capabilities". Society can be understood as "a melange of social organizations" made up of heterogeneous groups organizing social

control, meaning that social control overall is disbursed (White, 1999: 319). Therefore, the state is simply one set of institutions amongst others which seeks to exercise control, operating in an "environment of conflict" (Migdal, 1988: 28-29; White, 1999: 319). Migdal (1988: 33) points out that "[t]he strength of the state organization in an environment of conflict has depended, in large part, on the social control it has exercised. The more currency – that is, compliance, participation, and legitimation – available to state leaders, the higher the level of social control to achieve state goals". In the sense of institutional capabilities, Fukuyama (2004: 12) shows the strength of a state to include the ability: to formulate and carry out policies and enact laws; to administrate efficiently and with a minimum of bureaucracy; to control graft, corruption, and bribery; to maintain a high level of transparency and accountability in government institutions; and, most importantly, to enforce laws.

1.1 The degree of state intervention in promoting growth and development

At the risk of generalization, it can be argued that the size, functions, and scope of states have been the subject of debate since the beginning of the modern state system. However, this debate has gained currency in recent years mainly because of the challenges of economic globalization. As McGrew (1992: 92) suggests, globalization is "compromising the authority, the autonomy, the nature and the competence of the modern nation-state". Despite the state's greater subservience to globalization, Pierson (2004: 104) shows that "in most of the developed world, the state remains the single largest and most decisive economic actor". In response to the challenges of economic globalization, I cite Cox (1993: 260) who suggests that "states must become the instruments for adjusting national economic activities to the exigencies of the global economy".

While the role of the state in the developed world remains the most dominant, a strong emphasis on diminishing the role of the state in every sphere of activity is a key feature of the developing world. In

the 1980s and early 1990s, as a result of the rise of neoliberalism, the size of the state sector throughout the "Third World" was reduced or was obligated to be reduced as imposed by multilateral economic institutions (MEIs) such as the World Bank, international financial institutions (IFIs), the International Monetary Fund (IMF) and the US government. Under the auspices of neoliberalism, a package known as the "Washington Consensus" dictated the degree of state intervention in economic affairs which significantly reduced the role of the state. Following the impact of this, and coupled with the fact that thousands of anti-globalization protesters emerged, many prominent academics persistently attacked the Washington Consensus. For example, Stiglitz not only documented the impact of the Washington Consensus (see Stiglitz, 1989, 2002, 2006) but advocated for a more interventionist role for the state in the economy, using the strategic levers of regulatory institutions, social insurance programs, and fiscal and monetary policies above and beyond the mere ensuring of free market conditions through protecting private property rights and the rule of law.

In response to the neoliberal emphasis on the "minimal state", another important change took place in the history of economic thought. The New Institutional Economics (NIE) emerged as a school of thought based on two major propositions. Firstly, "institutions do matter"; and secondly, "the determinants of institutions are susceptible to analysis by the tools of economic theory" (Matthews, as cited in Williamson, 2000: 595). In their famous article "Institutions Rule", Rodrik, Subramanian, and Trebbi (2004) argued that the quality of institutions "trumps" everything else. Similarly, a number of studies also linked the direct and/or indirect relationship between the quality of institutions and economic growth and/or socio-economic development (Knack & Keefer, 1995; Aron, 2000; Persson, Roland & Tabellini, 2000; Acemoglu, Johnson & Robinson, 2000, 2002; Persson, 2002; Persson & Tabellini, 2003; Rodrik & Subramanian, 2003; Bates *et al.*, 2004; Persson & Tabellini, 2004; Kaufmann, Kraay & Mastruzzi, 2005; Alesina, Ardagna & Trebbi, 2006; Chhibber, Peters & Hale, 2006).

In their influential work, *Why Nations Fail: The Origin of Power, Prosperity, and Poverty*, Acemoglu and Robinson (2012) persuasively show that it is man-made political and economic institutions that underlie economic success or the lack of it. Drawing on the example of the city of Nogales which is divided by the fence between two different countries, Arizona, USA and Sonora, Mexico, the authors argue that:

The reason that Nogales, Arizona [USA] is much richer than Nogales, Sonora [Mexico] is simple: it is because of the very different institutions on the two sides of the border, which create very different incentives for the inhabitants of Nogales, Arizona, versus Nogales, Sonora.

Likewise, they provide a number of fascinating examples which include North and South Korea, and the former East and West Germany. For example, they argue that Korea is one of the most homogeneous nations in the world, yet the people of North Korea are among the poorest while the people of South Korea are among the richest. It is nothing but the politics that have created completely different institutions that promote development in South Korea. By examining a number of case studies and historical narratives, Acemoglu and Robinson (2012) raise a question as to why nations fail today. For them, the answer is: "institutions, institutions, institutions".

On the other hand, throughout the 1970s, 80s, and 90s, a number of neoclassical economists and political economists advocated that the state was the single most important impediment to economic development. Extensive state intervention, in the form of regulatory mechanisms, parastatal industries, investment, etc., was seen as central to explaining economic stagnation. In the 1980s, a new orthodoxy of market liberalism saw state intervention in markets as a logical outcome of a close alliance between rent-seeking public officials and rent-seeking economic interests. This radically diminished the size and scope of state intervention and was considered as the only solution to end rent-seeking and to promote more dynamic economies (see Grindle, 1996).

In contrast, welfare economics or the "market failure" approach views state intervention as necessary for economic growth. State intervention is seen to be important mainly because of the inability of decentralised agents, in their pursuit of self-interest, to produce outcomes which would fulfil the "efficiency" conditions of a competitive equilibrium (Chang, 2003: 47). When a market "fails", the state can emerge as a guardian, partner, facilitator, even as a direct provider of growth by means of public production, subsidies, reallocation of property rights, etc. However, with the rise of neoliberalism, this view has been the subject of severe criticism (Chang, 2003: 47).

More recently, as Kohli (2003: 3) suggests, "there is a continuing recognition of the importance of macroeconomic stability and getting some prices right, such as exchange rate and food prices". However, today the role of the state in economic development has been seen in the context of the "effectiveness of the state" (e.g. see World Bank, 1997; Fukuyama, 2004). According to *the World Development Report 1997*, "the state is central to economic and social development ... as a partner, catalyst, and facilitator" (World Bank, 1997: 1). However, this statement is conditional on a certain interpretation of "effectiveness": this study further states that "an effective state is vital for the provision of the goods and services – and the rules and institutions – that allow markets to flourish and people to lead healthier, happier lives. Without it, sustainable development, both economic and social, is impossible" (World Bank, 1997: 1; emphasis added). Similarly, with regard to the contested role of the state, Fukuyama (2004: 7) argues that "[t]he problem lay in a basic conceptual failure to unpack the different dimensions of *stateness* and to understand how they related to economic development". Here, two points are vital: the state is central to development, but that must be an effective state. In other words, quality of state intervention is required rather than its quantity with a view that states and markets need to work together to promote growth, not to compete with each other.

I agree that "the state is central to economic and social development" and the willingness and effective mechanisms of the

state "allow markets to flourish and people to lead healthier, happier lives". With regard to "effectiveness", I contend that the effectiveness of the state needs to be seen in the context of the differential abilities of different countries with due regard given to the socio-political culture of a particular state. It is my premise that the state is not only an important and active economic and social development actor, but it is also important because the state is the fundamental actor seeking to protect its citizens by providing goods and services, and using the economic resources of its own societies, which in turn allows markets to flourish via rules and institutions. To that end, in order to promote development and to eradicate poverty and hunger, I finally place an emphasis on institutions which are the outcome of the political system of a particular nation state.

1.2 The nature of the state: a weak state or a neopatrimonial state?

In order to understand the challenges of development, it is imperative to question the scope of state functions (e.g. education, health, food, etc.) and the strengths of the state institutions of the Bangladesh state in terms of their capacity to effectively carry out state functions and to pursue development programs for its citizens. I frequently refer to state failure. Thus, according to conventional studies, this state needs to be labeled as a weak state.² However, in contrast with conventional analysis, although I question the state's ability, I do not term it to be a "weak state", but rather, a neopatrimonial state. What causes this distinction? Weak states are most frequently cited and accepted as states which do not have "capacities to penetrate society, regulate social relationships, extract resources, and appropriate or use resources in determined ways" (Migdal, 1988: 4). The fact that the Bangladesh state neither has the capacities to penetrate society, nor does it regulate social relationships or extract resources. It also cannot appropriate or use resources in resource-determined ways. On the other hand, the neopatrimonial state is different from what Kohli (2007) terms as a

² Considering the scope and function of modern state as noted earlier, unlike the Western states, the Bangladesh state is very weak as it has not a plethora of enforcement agencies to enforce anything from traffic rules to commercial law. For example, the United States has a system of limited government that has historically restricted the scope of state activity. Within that scope, its

"cohesive-capitalist state" and/or a "fragmented-multiclass state" The neopatrimonial state refers to a type of state where the simultaneous operation of the Weberian ideals of "patrimonial" and "legal-rational" domination exist. Despite the façade of a modern state, the notion of the *personalization of power* or personal rule is the key characteristic of the neopatrimonial state because the state, in neopatrimonial regimes, is treated as an extension of the property of the leader, and the leader rules with the help of clients who receive pay-offs for their support. Kohli (2007: 9) suggests that "these [neopatrimonial states] are therefore not really modern, rational-legal states". Here, my first argument is that when a type of state is different from other modern states, it is illogical to compare them. I therefore reject the approach of the "Failed States Index"³ for the purposes of studying the Bangladesh context. Here, it is important to note that although *Foreign Policy* and the Fund for Peace use a perception-based method of assessing state failure known as the Failed States Index, the fact that a state is a "weak state" does not necessarily mean that it is a failed state. Paul (2010: 6-7) identified four types of weak state in the South Asian region: failed states, very weak states, weak states, and strong-weak states. This is more eloquently expressed by Patrick (2011: 19-20) who argues that:

Over the past decade, "failed states" have gained unprecedented attention in both official policy and popular discourse. ... Despite this unprecedented recent attention, the concept of the "failed state" remains vague and imprecise. Analytical shortcomings include the absence of clear criteria to measure weakness or define "failure," and an inattention to the specific histories, trajectories, and regimes of the countries so designated. The concept of the "failed state" also raises troubling normative questions, implicitly placing the blame entirely on

ability to create and enforce laws and policies is very strong" (Fukuyama, 2004: 9). On the other hand, the ability to create and enforce laws and policies is very weak in Bangladesh compared to the United States or any other Western democratic state. On the contrary, some see the state as a power organization that engages in "centralized, industrialized, territorialized regulation of many aspects of social relation" (Mann, 1986: 26). Mann suggests that "the capacity of the state actually to penetrate civil society, and to implement logistically political decisions throughout the realm" (Mann, 1986b: 113; quoted in Migdal, 1994: 11-12). In this respect too, Bangladesh is not a very strong state as its civil society is highly fragmented and often works based on patronage in carrying out the distribution of state resources. Grindle (1996) suggests that capable states ought to have: "institutional capacity", "technical capacity", "administrative capacity", and "political capacity". Theoretically as well as practically, none of these elements of a capable state is strong in the Bangladesh state.

³ According to the Failed States Index 2011, Bangladesh ranks 25 (in danger category) and scores 94.4.

developing countries for their current circumstances, and (at least potentially) privileging the preservation of domestic order over the pursuit of justice.

My second argument is that while a weak state is a state that fails to perform a number of activities as mentioned earlier, the failure to perform is a determined and intended outcome of regimes in the neopatrimonial Bangladesh state. For example, the ability of the state to extract resources such as through tax collection is one of the most important pillars of measuring state weakness. Because of patronage politics, as well as "pay-off" or exchange-based rules, regimes "do not" extract resources (this is not to be mistaken with regimes which "cannot" extract resources). It is the rich, particularly those linked with governmental regimes, who do not pay tax in Bangladesh: that Members of Parliaments (MPs) import luxury cars without paying tax is widely known in Bangladesh. Another point is that they do not pay income tax against their salary which is permitted via the patronage of the Prime Minister. Similarly, in a pyramidal structure of a patron–client society, state Clites offer remedies for their clients to avoid tax and punishment for wrongdoing, etc.

In this paper, thus, I refer to the Bangladesh state as a neopatrimonial state to indicate its weakness and statelessness. However, it is important to keep in mind that this weakness denotes the purposeful weakness which is associated with patronage politics. In other words, the inability of the state to perform well in regulating the market and the inability to carry out activities necessary for promoting food security are linked with the political will of the state élites. I argue that if there are problems, they are related more to patronage politics than to administrative incapacity or economic power.

1.3 Challenges of Development in Bangladesh: Examining the conventional accounts of the Bangladesh state

Bangladesh is one of the poorest countries of the world. Using economic indicators, however, some suggest that the country made

considerable progress and therefore is often depicted as a "development surprise" (Mahmud, 2008; Mahmud, Ahmed & Mahajan, 2008; Devarajan, 2005; Ahluwalia & Mahmud, 2004) which Banerjee and Duflo (2011: 267) describe as a "small miracle". Sen (2011: 44) also compared its impressive gains, focusing on social indicators, compared to India. However, Mahmud (2008: 96) rightly observed that "the country has recovered from its image of being prone to famines and disasters, only to be perceived as one of the most corrupt and ill-governed countries". In explaining the origin, nature and impacts of this corrupt and ill-governed country, a plethora of literature, most of which are historical narratives, attempts to map out the institutional, political, and cultural transformations that have shaped the contemporary Bangladesh state (e.g. see Riaz, 2004, 2008; Milam, 2009; Van Schendel, 2009; Ali, 2010). Several studies, for example, by Kochanek (1993, 1996, 2000) show the highly-centralized and personalized decision-making process in Bangladesh. Kochanek clearly demonstrates the recurring tendency of the state towards "centralization" and brings two important aspects of the Bangladesh polity to the forefront: "patronage politics" and the patron-client nature of politics. However, most conventional studies point out the successive governments' legitimacy crises, civilian autocracy, the burden of military rule, and the civilianization process and its consequences in democratic governance (Khan, 1976; Lifschultz, 1979; Bertocci, 1982; Franda, 1982; Zaman, 1984; Ahmad, 1988; Hossain, 1988; Ziring, 1992; Alam, 1995; Jalal, 1995; Jahan, 2000; Evans, 2001; Ahmed, 2003; Maniruzzaman, 2003; Ahmed, 2004; Jahan, 2005; Kukreja, 2008; Milam, 2009). Some suggest that most of these conventional studies are uncritical and basically provide a straightforward narrative of history. For example, in the words of Siddiki (2011: 7), "[c]onventional accounts of the country's politics tend to take regime histories as their points of departure". Similarly, Alam (1995) criticizes two most influential and widely-read scholars on Bangladesh politics. He (1995: xxii) suggests that while analyzing the politics and the state in Bangladesh, many prominent scholars such as Jahan (1972) and Maniruzzaman (1980) compiled

episodes, events, facts, and "objective" data without a context. The basic limitation of this kind of work is that it does not allow a theoretically-informed reading and interpretation of the social and political processes of a historically-constituted society (Alam, 1995: xxii). Therefore, I have rigorously reviewed the literature which takes a more critical approach in examining the Bangladesh state.

In contrast, most of the critical literature demonstrates that the state that today's Bangladesh has inherited from its colonial past was simultaneously modern and "limited".⁴ In the words of Siddiki (2011), the Bangladesh state inherited a colonial structure which was alienated from society and remained so well after independence and the post-1990 'democratic' era. But then this alienated state also remained highly governmentalized since its very inception in 1971 which originated from both the colonial and "internal colonial" rule of Pakistan: in the process, neither the practice of rendering governmental policy (the cause of the contention) nor the culture of policing the people (the cause of the action) were removed (see Ahmed, 2001; emphasis original). Drawing the case of post-colonial Bangladesh and the Pakistan state, Alavi (1972) suggests that colonialism resulted in an "overdeveloped" state relative to the comparatively underdeveloped local bourgeoisie. This overdeveloped nature of the state helped foster and preserve the interests of local élites.

The post-colonial state of Bangladesh, in the words of Alam (1995), has failed to achieve any reasonable rate of economic growth, and the development of an industrial bourgeoisie, the main concern of economic development since 1975, remains

⁴ I borrowed this argument from Kohli (2007: 228) who argues by drawing on the case of India. According to Kohli (2007: 228), "The state that sovereign India inherited from its colonial past was simultaneously modern and "limited". It was modern in at least two senses. First, the state was centralized. It held a monopoly over the use of coercion in the territory it governed. And, at least at the apex, it was relatively bureaucratized on the basis of a clear separation between the public and various personal realms. And second, it was increasingly constitutional, with elements of a parliamentary government. But then this state was also quite limited: First, the colonial state had by design been essentially laissez-faire. Second, and less obviously but of more profound importance, the British entered into a variety of ruling alliances with traditional Indian elites, limiting the state's downward reach. And third, Indian nationalist leaders mobilized various social classes into politics, which pushed a limited colonial state into a reactive mode. This modern but limited state was India's fragmented-multiclass state in the making, the product of both colonial state construction and pressures from Indians, especially the nationalist elites."

unattainable. He suggests that the centre of this problem lies in the nature of the post-colonial state of Bangladesh. He shows that since the prerequisites for internal capital formation, like viable land reform, infrastructural development, price control and the creation of a strong internal market, were never developed, the state became perpetually dependent on foreign aid. Anu Muhammad (2006) examined this failure of the state in view of the power and ownership aspects of the globalization process. He argued that, as a peripheral economy, Bangladesh has become more marketized, more globalized, and more urbanized; and in the process it now has a larger number of super-rich people and an increasing number of uprooted poor people. It is to be noted that the process of the integration of Bangladesh with the global economy has evolved and developed under the mechanism of what Sobhan (2010) calls "unjust governance" in South Asia. With a particular focus on the Bangladesh state, in his *Challenging the Injustice of Poverty: Agendas for Inclusive Development in South Asia*, Sobhan (2010: 8) states that:

[t]his inequitable and unjust social and economic universe is compounded by a system of unjust governance in South Asia, which discriminates against the excluded and effectively disenfranchises them from the political benefits of a democratic process. The excluded, whether they tend to be women, the resource poor or minorities, remain excluded from the policy concerns of the ruling elite, voiceless in the institutions of governance and, hence, underserved by available public services. Where such services are at all accessible to the excluded, they pay high transaction costs for these services. The agencies of law enforcement insufficiently protect the excluded and frequently oppress them for personal gain as well as on behalf of the elite.

In the "centralized" state of Bangladesh, neither the judicial system nor the institutions of democracy are responsive to the needs of the "excluded". The excluded of Bangladesh remain tyrannized by the state as well as by money power and have to seek the protection of their oppressors within a system of patron–client relationships, which perpetuates the prevailing hierarchies of power (Sobhan, 2010: 8). Although the poor and voiceless are trapped by the state

as well as by money power, the benefits of democracy remain the privilege of the Clite supported by small collectives of sectoral power in an inequitable and politically unjust environment like Bangladesh (Sobhan, 2010: 9). The fact is that the state remains dependent on particular social classes and particularly on the emerging economic Clite (Sobhan, 2000). Here, it is imperative to understand the following: why don't the benefits of democracy reach the poor? Why do they only remain for the privileged? In order to understand these questions, one needs to look at the existing political culture and political system of Bangladesh.

Several key concepts have been widely used by scholars in explaining the Bangladesh polity, which include: criminalization of politics, confrontational politics, eroded governance, massive corruption, lack of accountability and transparency, and the absence of the rule of law (e.g. see Kochanek, 1996; Khan, 2000a; Kochanek, 2000; Zafrullah & Haque, 2001; Zafarullah, 2003; Sobhan, 2004; Sarker & Rahman, 2006; Sarker, 2008; Khan, 2010). The general impression of today's Bangladeshi society is that "Bangladeshis now live in an environment in which politics has been criminalized while crime itself has been politicized" (Siddiki, 2011: 17). Sobhan (2004) demonstrates how political leaders and the nature of political parties and political culture systematically criminalize politics in Bangladesh. He argues that political leaders now increasingly use *mastaans* or hoodlums as a political resource in their contention for political office and use state patronage to access public resources. Politically-patronised *mastaan* culture has institutionalized itself over successive regimes. This extra-legal activity is now an integral part in the election system and in securing a support base in particular areas (Sobhan, 2004). As a result, as one observer suggests, the country is now caught in an economic trap of criminalization (Barakat, 2003; as cited in Siddiki, 2011: 17).

The strong bipolar system of the polity is extremely confrontational in nature. Since 1990, the almost equal strength of the two major political parties has contributed to the emergence of

a duopoly over the national political system. This *winner-take-all* power game in Bangladesh is not the outcome of class difference nor is it based on ideological difference but rather it is based on power sharing over the state's resources. This power sharing is concerned with job sharing, the acquisition of property and business licences and tenders, etc. (see Sobhan, 2004; Mohsin & Guhathakurta, 2007; Siddiki, 2011). The nature of this takeover of power resembles, in the words of Mohsin and Guhathakurta (2007: 50), the politics of "*char dokhol*" (the occupation of *char* lands) which is more typical of a thriving peasantry than a burgeoning bourgeois democracy. The competition's zero-sum nature raises stakes, helping to institutionalize violence as an instrument of political pursuits (see Peiris, 1998; Datta, 2005; Maniruzzaman, 2009; Ali, 2010; for a general overview of political violence, see Islam, 2011). In this political culture, the rest of the society is forced to go with the more powerful party if they wish to participate in and receive benefits from the system. Force and patronage politics trump ideology and political predilections in this instance (Siddiki, 2011: 15).

The rapid erosion in governance is another important feature of the Bangladesh polity. As Kochanek (2000) notes, "[d]espite large amounts of aid, the World Bank and Western donors argue that poor governance and weak institutions in Bangladesh have acted as significant constraints on development". In explaining the state, a considerable number of studies have focused on the governance issues of Bangladesh (Kochanek, 2000; Zafrullah & Haque, 2001; Khan, 2003; Sobhan, 2004; Roy, 2006; Sarker, 2008; Khan, 2010). The main argument of these studies is that, as a result of the rapid erosion in governance, the political system remains fragile and unstable, the economy in disarray, and social services are practically non-existent. For example, Khan (2003) notes that the state of governance in Bangladesh is in dismal shape: social, political and economic governance suffer from stagnation and show little sign of progress. In fact, political governance in Bangladesh is a problem and political institutions are becoming increasingly dysfunctional due to the imperfections prevailing in political markets (Roy, 2006: 16). On the other hand, Mahmud (2008)

highlights Bangladesh's impressive record of economic growth despite what he calls "apparently poor governance". Khan (2010) rightly points out that "economic growth and indices of governance in Bangladesh tend to move in dissimilar directions". He further argues that the deeply-entrenched illiberal democracy could not suppress the flowering of her people's creativity in agriculture, microcredit for the ultra-poor, innovative programs of NGOs in primary health and education, and the vibrancy of civil society.

2.3 Conclusion

The aforesaid literature shows that rapid erosion in governance is one of the important features of the Bangladesh polity. The Worldwide Governance Indicators also project constructs aggregate indicators of six broad dimensions of governance which show relatively very poor perceptions of governance in Bangladesh. For instance, in the most recent governance dataset released by the World Bank for 2011, Bangladesh's ranking among 212 countries varies from the bottom 9th to the 38th percentile in the six indicators. These are: 9.9 for political stability, 21.5 for government effectiveness, 21.5 for regulatory quality, 16.2 for control of corruption, 26.5 for rule of law, and 38.3 for voice and accountability (see World Bank, 2011).⁵

Thus, by examining the state, its institutional capacity, and development in the context of Bangladesh, I assert the argument of NIE which suggests that the "institutions do matter". In the light of the study by Acemoglu and Robinson (2012), as noted earlier, I contend that the origin of power, prosperity, and poverty of Bangladesh very much depends on its institutions. Therefore, in order to provide basic services to the citizens, the state institutions need to be effective. The fact is that strong institutional capacity is important for the underlying limitations of the unregulated market system in Bangladesh and the resultant need to protect the consumer, the small businesses and the poor. Thus this paper argues that in order to understand the challenges of development of Bangladesh, it is imperative to understand the institutional capacity of the state as well as the nature of the state.

⁵ Percentile rank among all countries ranges from 0 (lowest) to 100 (highest) ranks.

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