

An Interview with Professor Salim Rashid

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Emeritus Professor Salim Rashid of the University of Illinois Urbana-Champaign has published widely in the fields of the history of economic thoughts, economic development, mathematical economics, monetary economics, Islamic economics, religion and economics, and economic methodology. I came to know about Prof. Rashid when I entered North South University (NSU), Dhaka, as an undergraduate student in 1993. However, my first serious interaction with Prof. Rashid happened in September 1996, when I enrolled in his graduate course in “Contemporary Economic Systems” at NSU. On the first day, he assigned us to read Prof. Nurul Islam’s “Development Planning in Bangladesh: A Study in Political Economy.” Upon noticing that several students did not even buy Islam’s book, let alone read it, in the second lecture Prof. Rashid changed the topic to the East Asian growth miracle and shared with us a few copies of James Fallows’s “Looking at the Sun,”—my first English nonfiction book that turned me on to thinking about economics intellectually. I also recall debating with Prof. Rashid on numerous issues in that class, and it is Prof. Rashid’s strength in his mastery of the intellectual history of economics that allows him to tackle questions from a much broader angle. His main message to his students was: “ask the precise and right questions.”

His deeply researched and detailed analyses are fascinating to read. This reminds me of an anecdote. Prof. Rashid spent 18 months on a paper to verify whether the figures Thomas Malthus used in his 1798 book (“An Essay on the Principle of Population”) are correct or not. Prof. Rashid left offprints of many of his published papers with NSU’s library, and reading those became a part of my graduate student life at NSU. In fact, my first professional publication is a review of Prof. Rashid’s co-authored book on entrepreneurship in Bangladesh’s garment industry. Over the past twenty years, I kept in touch with Prof. Rashid through asking many questions and he would often turn them back into the right questions. The questions that follow below serve mainly to satisfy my own curiosity. Besides, I am often asked similar questions by my students at East West University, Dhaka. This interview was taken in Dhaka between October 2017 and January 2018 when Prof. Rashid was visiting the Department of Economics, East West University. This interview is lightly edited for length and clarity.

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Prof. Salim Rashid, January 2018, Dhaka.

I. HISTORICAL ORIGINS OF DEVELOPMENT THINKING IN BANGLADESH

SB: Let me start by saying that every country probably has its own ‘economic thought’. What is Bangladesh’s economic thought?

SR: Even if Bangladesh had such a school of thought, particularly around the time of its independence, it was primarily leftist in nature. How far the intellectuals influenced the populace is unknown to me, but those ideas have since been discarded. After independence, as economic growth was not significant, people realized that what they were trying to do was not working for some basic reason. So, everybody moved away from that economic philosophy. In fact, if you look at some of the leading Marxists (or left-wingers) of that period, many who were really good ended up in international organizations. So, in a sense, they lost their credibility. They could not deliver growth in Bangladesh, and they themselves did not maintain the—ah, what should I say—‘do or die’ attitude that one thought was essential. But this does not mean that all their ideas were wrong. Many were very good. But it means that their major thrust was wrong. This was the idea that you can build an economy without using self-interest.

SB: An oft-repeated debate in economics is the role of state vs. the market. Joseph Stiglitz wrote a book on during his visit to Bangladesh in 1996. So, which force worked more in Bangladesh: the state or the market or a bit of both?

SR: When I teach, I always say that there is a hierarchy. Economics depends on law, and law depends on politics. Therefore, politics must rule everything. If you do not have a conformable political environment, you cannot run the economy. For that reason, I will say that ‘state’ is obviously primary. But, even if you have a state that wants to do the right thing, it does not mean that everything that it does will be right. That is where there is the room for economic analysis and policy.

SB: Some recent research has raised concerns that contrary to the central role played by government in accelerating industrial development in the East Asian economies, Bangladesh’s industrial development in the Readymade Garment (RMG) sector flourished despite the absence of strong and centralized government institutions, and often with poor governance record. How do you explain this interesting counterexample?

SR: I think the answer must lie by looking at the biographies of the individual entrepreneurs. How many of them were linked with the bureaucracy or with politicians? If they were shown to be independent of the

bureaucracy and the politicians, what I call the ‘bureaupolity’, then we have a genuine counterexample. But if it turns out like the first person who started it, (do you remember the name of the owner of the Desh Garments?), was an influential bureaucrat. And how did he start? By getting the Koreans to come and train Bangladeshis. So, i) it was not something that the home-grown entrepreneurs thought of by themselves, and ii) it was not as though it occurred independently of the state. People with access to the state were able to use private property to make money. Perhaps the question can be turned around: if the State had intervened more actively, would the RMG sector had provided even more benefit?

SB: A growing body of evidence shows the impact that history can impact on current economic development. The historical origins of development can be traced in several ways. One line of research examines the role of geography, another explores the importance of institutions. Do any historical incidents explain the economic outcome of present-day Bangladesh?

SR: I do not find this a compelling line of argument because to me institutions are basically a set of rules, and rules mean words on paper. It’s not the words on paper that are as important as the spirit in which they are implemented. And there is so much elasticity in the way words can be interpreted and implemented that by and large it is that spirit behind the words that matter more than the words themselves. So, to me it is not so much the institutions that matter, meaning formal institutions, as the manner in which people conceive of the institutions as being necessary and worthwhile.

SB: A recent survey of historical development by Nathan Nunn of Harvard University pointed out that the vast majority of the studies in the literature examine a particular event in isolation from other events. No unified theory explains how all the pieces fit together. What is your view about this?

SR: I think more along the lines of the old political history, which was that where the whites went and settled, like Australia and Canada, they were from the very beginning treated like autonomous bodies. Therefore, they could decide for themselves. And if you look at their growth rates, they exceeded the growth rates of places that were colonies. Ask yourself: does this sort of autonomy or independence matter? And I think the answer is clear. In fact, there is even a short book of Shahed Alam—which is not well known—which shows that colonial rule basically used Washington Consensus ideas: stabilize, liberalize, and privatize. If that was enough to get development, why did not the colonies grow? Why did not the colonies develop? The answer is the it is not just those rules, but who is implementing them, how they are being implemented, and for whom.

II. ECONOMIC DEVELOPMENT OF BANGLADESH

SB: In 2008, the World Bank published a report about Bangladesh describing it as a “Development Surprise”—a combination of relatively low income per capita but high social indicators—relative to neighboring South Asian countries such as India and Pakistan. What is your opinion on this? And how robust is this progress?

SR: I think for such issues it is probably better to disaggregate the phrase ‘Bangladesh economic growth’ into that which the State has tried to implement and that which factors outside the State have tried to implement. Ever since its birth, Bangladesh has been a sort of laboratory for the Western world. So we need to ask for each particular issue, who pushed it? Was it pushed by the WHO? Was it pushed by the ICDDRDB? Was it pushed by some other international body? If not, was it pushed by NGOs? And finally, if it was pushed by the State, which government pushed it? And where did they get the funding from? If we examine and separate the motivated actors, to my mind that would be a sufficient explanation. There is no need for a general theory about this.

SB: Let’s look at a particular development indicator: life expectancy. Bangladesh’s current life expectancy is about 72 years, which is pretty high relative to other developing countries. Was it easier to increase life expectancy due to the advancement of medicines and antibiotics?

SR: Child mortality was perhaps the primary source of our low life expectancy before. When I was a child, life expectancy at birth was 39. That was primarily driven by high child mortality. I think if you look at the life expectancy of a 12-year old 50 years ago and the life expectancy of a 12-year old today, the difference would be as dramatic. It is the sharp decline in child mortality which accounts for much of our overall higher life expectancy today. Medical intervention, not economics, is to be thanked.

SB: In 2021, Bangladesh will celebrate its 50 years of independence. How do you think the next 50 years will look like for Bangladesh? What sort of development challenges we have and how optimistic are you about the continuation of today’s economic pace in the upcoming decades?

SR: The question is, given what path? If we just run the way we have been moving along right now, then there are several possible pitfalls. The most important is a heavy reliance on two sectors, readymade garments and remittances. RMG is basically making use of cheap labor, but there is no reason why other

people cannot offer cheaper labor. Once some other countries get themselves organized, then Bangladesh may be out of that market. It can be something that is quite sudden and in that sense catastrophic. About overseas workers, let's focus on those who are going overseas legally, we see an increasing trend of nationalism abroad. Therefore, these paths may soon be closed. And if they start constricting their economies within the next five years, then RMG and workers remittances can both come to a sharp fall. If these foreign exchange sources do not continue, what does it imply about Bangladesh's exchange rate, Bangladesh's essential purchases, and how development can take place?

SB: But there are other global forces. One of them is the aging of the population in the western world. On the surface, one can argue that it will increase the demand for our workers (both skilled and unskilled). On the other hand, western countries are increasingly relying more on automation, which may reduce the demand for workers, especially those involving routine jobs. How will these two forces affect countries like Bangladesh?

SR: Automation is very hard to talk about because we do not know what the direction of automation will be. Or what is it that being automated. Because every species of automation is done for a specific task and we do not know which are the specific tasks which are capable of being automated right now. So it is better not to make any prediction of that score. But as far as aging is concerned, we have seen what happens if a country becomes sufficiently nationalistic; in Germany Angela Merkel argued that we need these workers. And a large segment of Germany said no even if we need them we do not care, we would rather be poorer and keep the country to ourselves. It is not automatic that, because they are aging, they will necessarily want to maintain their current lifestyle by importing workers. They might adopt a different lifestyle, so they do not need foreign workers. These are all strategies that are based on the presumed constancy of others behavior. They are not strategies that Bangladesh can rely upon. At some point it is better to have a number of robust paths that Bangladesh can implement by itself.

SB: In 2000, you published a book with the title “Economic Development is Human Development.” In light of that book, how far you think countries like Bangladesh have come to develop their human resources? Put another way, what can these countries do to improve their human capabilities?

SR: I think in quantitative term, Bangladesh has moved ahead very considerably. If you look at items like literacy per se, there has been a huge increase in literacy and a spectacular increase in female literacy. If you look at it in terms of quality, then the problem arises. Until we can ensure that quality catches up with

the quantitative increase, the measured increase may be something of a mirage. On the other hand, the recognition that human capital in education must be acquired is visible everywhere. Even the lowest paid workers (e.g., drivers, rickshaw pullers), are very concerned that their children need an education in order to get ahead. And they make enormous sacrifices so that their children can get one rank higher. This implicit demand is so great that if the state can structure the education system better, I am sure that there will be very rapid improvement in quality.

SB: So you're implying that we are in a position to estimate the returns to education?

SR: Even without a systematic estimate, I think the return to education is very high in the perceived calculus of parents. And this is very high for two reasons. In and of itself if you can become a reasonably competent graduate, your income level and your potential future earnings increase enormously. And secondly, I see most parents consider their number one option for their children is to go abroad, whether boy or girl does not matter. Even if the western world closes its borders for the unskilled, they will still leave them open for the educated, because they create the least problems and provide the greatest benefits to the West. In their own interest, they will keep the educated channel open. This is the flow that can be sustained. But it needs proper direction. If the quality is not there, nobody will care about who is being educated.

SB: Researchers claim that Bangladesh has not experienced the demographic transition. So, unless Bangladesh crosses the demographic transition, it will not be able to increase its per capita income. Which in turn implies that the quality of human capital will not be much improved either.

SR: My understanding of the situation is somewhat different. What the demographic transition used to say is that first your income rises, then you reduce your family size. Bangladesh surprised everybody by reducing its family size even before its income rose. But the initial momentum was not being sustained. And now there seems to be a slackening in the growth of population control (or population planning). In a sense, we have 'broken' demographer's expectations in two ways. One, population growth declined before income increased; And subsequently, as income increased, population growth has started again. This needs better study. The population is one of those areas where abstractions are pointless. The best way you find out whether or not people will have more children is not to run regressions but to go and ask the parents. We need to get micro-level studies on parents' motivations for family size. Only then can we find out the way to tackle the issue.

III. ISLAMIC ECONOMICS

SB: Let's change our focus to a different topic. You have written several papers on Islamic economics. One branch of Islamic economics that is proliferating is Islamic banking. The latest research, however, casts doubt whether Islamic banks are "truly" Islamic in their operations. What is your thought on this?

SR: I do not know what you meant by true Islamic banking. Let me simplify the question by saying, to me Islamic banking means profit and loss sharing. Given the proven excess of equity returns over treasury bills, I am flabbergasted that virtually none of the Islamic banks have been willing to take the risk of engaging solely in profit and loss sharing. Since profit and loss sharing is proven to be more profitable over time, by far, let's take a gamble and say okay we take a loss in one year, we take a loss in two years, but we can more than make it up in ten years. Instead they seem to have opted for a scenario in which they always try calculating the interest equivalent of any profit and loss sharing. This is rewriting interest-based banking in Arabic. It serves no useful purpose.

SB: There is also a considerable confusion regarding the ban of interest rates in Islamic banking. What would you say to readers who are confused like me about the position of interest rate in Islamic economics?

SR: The *riba* which is banned, and whose meaning is clearly known, has no counterpart in modern banking. Hence taking bank interest is not a matter of conscience, but of one's own sensitivity.

SB: Can you elaborate on that?

SR: What will be decisive on this issue is a written *riba* contract specifying exactly what the legal implications are. Without such documents, we are left guessing. Dr. M.O. Farooq, a Bangladeshi economist in the Middle East, has done significant research on this question.

SB: You recently gave a keynote talk at a conference in Bosnia, where you discussed an economic interpretation of Sura *Quraysh*. Tell us a little about it.

SR: What is called the invisible hand in economics is a reference to the fact that we are often the unintentional agents of God. We are told in Sura *Quraysh* that the tribe of Quraysh were prosperous

because Allah had caused the caravans of merchants to go back and forth to the Kaaba. Since the merchants were only thinking of their own profits while on these commercial ventures, this is a clear indication that we can be carrying out God's plan even when we believe we are only pursuing our own self-interest. It is proper to claim that the first application of 'invisible hand' arguments to economics is perhaps in the Quran.

IV. HIGHER EDUCATION

SB: You were involved in the development of “private university industry” in Bangladesh in its early days. After twenty five years of its existence, how far you think the private university sector has come? Did it meet your expectations?

SR: As with our earlier discussion on education, the quantity response has been overwhelming and the quality control disappointing. The dream we had in 1990 of producing a Bangladeshi private university to rank in the top ten in Asia appears just as distant as before.

SB: There exists a considerable bias about private universities in Bangladesh. One of my students at East West University is subject to bullying by her own family members as inferior quality, compared to her brother who is a student of BUET. Similar bias also persists among employers (private and government alike) when hiring graduates from private university, who often face unfair and unequal treatment vis-à-vis their public counterparts. What are the likely consequences of this bias to our society and how to deal with it?

SR: The fate of such students is unfortunate. But the systemic fault lies with the private universities. The public cannot distinguish among such a large number; they must be helped by the private universities insisting on accreditation. As private universities, they must engage in more systematic liaison with the private sector so that their value is recognized.

SB: Why could not any public or private university become a research-oriented university in Bangladesh? We can also find an almost similar situation in South Asian countries. What seems to be the root causes of this underdevelopment?

SR: As far as Bangladesh is concerned, the answer lies in the same malaise that seems to underlie many aspects of public life—the readiness to grab short-run profit, even at the expense of a greater long-run gain.

SB: How higher education is different today from your days as a student and in what different direction it will evolve in the coming decades?

SR: Research was not much thought of then. That was left to the whites. So there is undoubted gain in our self-confidence today. However, the faculty are paid less in real income, have less societal respect and, perhaps in consequence, are much less dedicated to teaching. Students, on the other hand, are extremely fortunate. My parents were well to do, and yet, I cannot tell you how hard it was to get a good textbook—forget about journals or other aids to study. The hours we wasted going from place to place searching for a book! Today, you can get a MIT course online for free—and every imaginable topic is at one's fingertip on the web.

V. MISCELLANEOUS

SB: Let me turn to the question of income inequality. You seem to have a different perspective on income inequality than what we hear in the popular media or read writings by accomplished researchers. Could you elaborate your views on income inequality?

SR: We need to acquire wealth before we can redistribute it. Right now, we are insufficiently focused upon the means to attain 10 percent growth. If we grow rich in the proper way, and attain 10 percent growth, the redistribution will take care of itself. Equality under the market is an impossibility because markets work by punishing failure. For a society to withstand and grow from such failure, it needs strong non-economic bonds. We can and should worry about poverty, but inequality is a part of Capitalism. What is needed is the social framework which assures justice and opportunity—the resultant inequality will be acceptable.

SB: How do you assess the recent emphasis on unconditional basic income as a means to deal with income inequality?

SR: I may not understand the proposition, but if it is as stated, then its proponents must believe that people work even if they do not need to.

SB: For over twenty years, you are promoting the idea of “compact township” (CT) to provide a comprehensive alternative to housing, infrastructure, employment and more for the general population. What lessons you have learned regarding promoting a development idea in Bangladesh and what is the status of your CT project?

SR: The most important lesson that I have learned is the great divide between the elites in Dhaka and the ordinary people in the villages. After ten years of meetings, seminars and presentations I got only a pat on the back. In 2008 I decided to start talking to villagers across a wide swathe of Southern Bangladesh. To my delighted surprise, many of them anticipated the CT idea. Hence, members of the Compact Township Foundation, particularly Dr. Abul Hossain and Mr. Ekram Hossain, have tried to focus their efforts outside Dhaka. Fortunately, we attracted the attention of a Bogra developer, Mr. A. Karim, who has convinced the people of Khorna about the necessity of land pooling for a CT. Now the next step is for us to develop the legal and financial infrastructure to make these wishes effective.

SB: Do you have professional regrets and ambitions?

SR: Economics is a fascinating and important subject. I greatly regret the way in which it has abdicated its interdisciplinary importance by insisting that it is a ‘science’.

SB: Thank you, Prof. Salim Rashid.

SR: Thank you.