

POWER NETWORKS IN THE MAKING OF RICH IN A POOR COUNTRY. STRONG TIES, WEAK INSTITUTIONS AND THE PATTERN OF DEVELOPMENT IN BANGLADESH

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Abstract: In contemporary development studies there is a shift of focus from the state and the market to civil society and interpersonal networks. The claim is that macro institutional success depends on micro institutional foundations. Such a claim is based upon the assumption that informal norms of civil society and networks make people productive. While significance of network relations for economic activities and resource mobilisation is recognized, the positive effects on institutional performance remain conditional. Through a brief review of the dominating approaches to study development and interpretation of the findings of two earlier studies of network influences on economic activities in Bangladesh, this paper argues that positive network effects depend on the pattern of interaction. The interaction pattern recalls the notion of embeddedness, which implies economic activities and goals including access to economic resources and political power are coordinated by networks of relations. Its focus is on various elite networks in Bangladesh. There, like many developing countries, political leaders, top bureaucrats and rich business families have always tended to come together to form power triangles through creation of mutual cooperation and reciprocal dependence. They use their alliances for access to resources and for the exercise of power. They also compete for resources and power, which may take pervasive forms and have negative impacts on institutional performances. This can be viewed as an instance of constraints placed on various state institutions and development as bureaucratic state organisations are hollowed out by elite networks. The concentration of resources and power coincides with a parallel erosion of institutions.

Keywords: *Cliques, Coalitions, Competition, Development; Elite; Embeddedness; Power network*

I. INTRODUCTION

Economic growth and the role of institutions (state and market) in achieving growth have been enduring concerns of development studies. There are two dominating approaches. The neo liberal approach regards the market as, in Evans word, *the magic bullet* [1] while the institutional approach emphasizes the role the state. Experiences of many developing countries raise doubt about the performances of both the market. There is a new concern with norms of civil society. The new approach came to known as the new institutional, claim that macro institutional success depends on micro institutional foundations. It looks upon norms of reciprocity and trust in networks as productive [1]. I do share such a view. I also think all these three approaches ignored some real problems and diversity regarding choice of goals and means as seen by experiences of developing societies. In very many developing countries the functioning of both the state and the market is circumvented by pervasive politicians and bureaucrats. Informal networks are used to maintain control over formal institutions. This is a “common complaint about how the Third World state conducts ‘business as usual’ in relation to ordinary people”[2. p.1.] .As I look at it ‘business as usual’ means how people organise their economic life; they may follow existing norms, values, customs, traditions, they perform their obligations to networks etc. All these express their interaction with social relations and economy’s embeddedness. The notion of embeddedness implies economy as instituted process[3], and economic activities are human beings’ interaction that take place within, and mediated by, ongoing social networks[4].

Interaction is a two way process. People act in certain ways as members of institutions and networks, because it is a custom, an obligation, or norm. People also take active part in creating institutions or networks. Patterns of interaction may vary, and varied patterns express diverse social organisations of the economy, which Polanyi called

various forms of integration, reciprocity, redistribution and exchange are three major forms [5]. Following Polanyi, development, or modernisation, involves changes in the level of embeddedness, and a transition from reciprocity to redistribution, to exchange, i.e. a disembedding process through which both the market and the state became autonomous, formalised and rationalised.

The institutional approach that emphasises state's role in development has one of its intellectual roots in Polanyi's notion of the economy as instituted process. The new institutional approach that focuses on civil society draws significantly on Granovetter's assumption that economic actions are embedded in ongoing social networks. Evans, through a contradictory combination of these two notions, embeddedness and autonomy, develops the notion of embedded autonomy, and examines varied patterns of development in the emerging economies in Asia and Latin America[2].

Analysing the state's role, or of the market, in detail is beyond the scope of this paper. It portrays the dynamics of networks to demonstrate how interactions assume different forms. It makes the use of embeddedness approach and its focus is on structures of relations. Through an interpretation of two earlier studies it discusses how various elite sub-groups secure their privileged access to economic resources in post-independent Bangladesh.¹ Political-bureaucratic and business elites have always been alliances and formed power networks. What I mean by power network is that power has a netlike structure. Power has to do with influences on others behaviour and decisions network members make about social arrangements under which they live. Power also implies control of both material and human resources, as well as control of formal institutions. Section that describes how networks work gives an account of the concept power network.

This paper aims at accomplishing three tasks: Firstly; a brief review of neo-liberal, institutional and new institutional approaches to study development. Far from discounting these approaches, it points out some specific theoretical and conceptual issues, which development researchers need pay attention to when addressing the important topic of performances in developing societies. Its emphasis is on inner connections between the 'economic' market and the 'political' state that circumvent both the market and

the state. The purpose is to thread my way between market oriented and the state oriented views.

Secondly, outlining a framework in order to understand inner connections of power networks. My claim is that informal social relations influence economic activities and the functioning of institutions which are formally rationalised. Such a claim calls for a close look at how those work. Members of various elite networks develop coalitions and disputes both within and across coalitions. Understanding relations both within and between and what bind people together require understanding the structures of relations.

Thirdly, the framework shall account for the pattern of interaction and its impacts on access to resources and power as seen in Bangladesh. I use the findings of two earlier studies on Privatisation in post-independent Bangladesh and network influences on consumption behaviour of the elites in Bangladesh. Findings suggest: Networks are ways of governing economic activities, and facilitate the process of resource accumulation. Networks are often the most effective means to secure rights (at micro-level), and political mobilization (at macro-level). Exclusive elite networks set constraints to institutional functions with regard to redistribution of wealth.

In concluding discussion I make some theoretical comments, on the new institutional approach in particular. Whereas the significances of network relations for economic activities are recognized, the positive effects on institutional performance still remain conditional. I add more arguments on the embeddedness approach to study development, however, with assumptions of both Polanyi and Granovetter are modified and extended.

II. DEVELOPMENT THEORIES AND EXPERIENCES OF DEVELOPING COUNTRIES

Development of modern Western societies involved the process of rationalization of economic and political activities. For societies in Africa, Asia and Latin America development came to mean modernization implying replication of the economic and political orders found in the Western modern societies. Modernization theories argued, in order to modernize, a country must provide the right conditions to transform, from undeveloped to developed, in five stages. For policy makers and development researchers development goal was economic growth through industrialization. Development policies, as proposed by national elites, were the instruments aimed at improving nation-states' economic performance. In sociological, anthropological and historical perceptions, development is redefined in terms of progress towards a complex of welfare goals including reducing disparities in living conditions and equal

¹This paper combines the findings of two earlier studies by the author. The first study, conducted in 1993-1994, examined the consequences of privatisation efforts in Bangladesh, financed by the Royal Norwegian Ministry of Foreign Affairs. The other study made an intensive investigation of the consumption behaviour of the rich in Bangladesh. This study was conducted from 1995-2000, financed by University of Oslo. I am thankful, and indebted, to both these institutions.

rights of access to material resources. The institutional approach, which emphasises the state's role in development, has one of its intellectual roots in such a perception. New institutional economics recognises the importance of institutional factors on market development [6].

For the new institutional approach understanding the emergence and the functioning of the market is the crucial issue. They also think non-market social devices may be more efficient than reliance on market forces [7]. Particularly in developing societies, the institutional factors are more important to market development [8]. One school within the new institutional approach, known as the statist theorists (the 'revisionists'), suggest a continued reliance on the state. But they add some more factors. Those are specialised bureaucratic organisations, effective management of development planning and policy implementation by a coherent and autonomous state. In Asia, Africa and Latin America, some countries have weak states [9].

A variety within this school came to be known as 'social capital' theory. Norms of reciprocity in network relations and networks of repeated interactions that sustain trust are termed social capital. These norms operate interpersonally, within cliques or communities, and obey a logic that is different from that of the state or that of the market [1.p. 1033]. The claim is that neither the state nor the market has power of their own but embedded in the socio-cultural context. The strength of such a claim rests upon synergy. Synergy implies that "civil engagement strengthens state institutions and effective state institutions create an environment in which civic engagement is more likely to thrive." [1.p.1034]. Informal norms of network relations make people productive and the success of macro institutions in enhancing developmental goals depends on the micro relations. Informal norms and customs, conventions and standard of operating practices structure the relationships between individuals, groups and institutions. Trust and norms of reciprocity in civil society are the crucial issues, both for development and for the analysis of roles of the state and the market [10].

Experiences of the newly developed countries vary. A few countries achieved buoyant economic growth in the last three decades. In Asia, impressive performances of NICs (Taiwan, South Korea) are followed by BRICs (Brazil in Latin America and India and China in ASIA). Both China and India, with an annual growth rate of more than 10%, stand out as outstanding economic performers. The unprecedented economic growth in China, India and Brazil, however, failed to reduce economic and social disparity. China and India have created a big chunk of Asia's new wealth, simultaneously, the gap between the cadre of nouveaux riches has widened.

China added 28 new U.S. dollar billionaires to its ranks in 2007 to 42. India the number grew from 34 to 53 in the same period.

Developing countries, in Asia, Africa, and Latin America, which are struggling for economic growth, affirm the conviction that in those countries, the state delivers little of value [2]. Particular interests are linked both with the state and the market. The state involvement creates privileged state elites [11, 14]. Evidence also suggest a 'zero-sum' relationship that arises due to the state's connections to informal networks that lead to diminishing social capital and makes the community worse off [12].

Failure to achieve developmental goals is attributed to weak political institutions in developing societies. Joel Migdal attributes weak institutions, particularly the state to its capability to penetrate society, regulate social relations, extract resources etc [9].

This paper adds further evidence, both on state-market-civil society relations and on inequality. As observed, in Bangladesh, elite of various kinds control the state (the market as well) and they pursue their interests through exclusive networks. Bangladesh does not have dollar billionaire, but there emerged many very rich groups of people. Every change of government has been followed by new dollar millionaires. Resources accumulate in the hands of the few elites who invest the accumulated surplus in luxury consumption [13,14].

The elite groups in Bangladesh constitute a fraction of the total population (less than 2% of a total population of 130 million)² who are again concentrated in the capital city, Dhaka. Despite their small number, the elites with their ownership and control over vast economic resources command a disproportionate influence on the rest of the society including institutional function. They control almost all forms of internal resources as well as the inflow of external resources [13,14].

A striking feature of the Bangladesh economy is that loan and credit became a major source of resource accumulation by elite of various kinds. They also show a strong tendency of not repaying the borrowed money. Yet they are given new loans [33]. Thus volume of loan default is increasing. The first three months in the year 2006 shows a 29 percent increase in loan default (amounting 2,885 crore taka as bad debt) to nationalised commercial banks only.³ The number of defaulters would be much higher (about 93%) if those who made partial payment are

² This estimate is done according to residence in posh areas. The exact number is hard to ascertain. The number of the elite is increasing, due to political patronisation. Every change in government opens up the possibility for new elite.

³ Equivalent to 412. 14 millions U.S. Dollar, current exchange rate being 1 U.S. Dollar=69.96 Taka.

included. Total outstanding loan was 19.24 billions USD (134,736 crore BDT) as on 31 march 2006[34].

The rate of saving is quite high, without being matched by a corresponding level of investment. Gross domestic savings (as % of GDP 1997) was 15%[17]. My survey indicates that the higher income groups save as much as 50% of their income. The problem is that both the state and the market show little capacity to transform the savings and the accumulated resources in the hands of the elites to productive capital. Instead, connections of patron-client relations and political affiliation came to be decisive both for access to resources and for channelling investments[13,14].

In both the earlier studies there are clear indications of connections among elites of various kinds. The control of state resources by the elites, which dominate key political parties, the state and the economy, is facilitated and perpetuated by connections or alliances, patronage and dependence. Those express interacting relationships, between informal relations and economic activities, and between networks and macro institutions.

The sketched form of interaction necessitates a deeper understanding of social organisation of economic activities both at macro-level (network influences on institutional function) and at micro-level (network influences on economic actions). Network influences on both these level, give rise to a concern about how those work and what social networks mean in the ongoing process of organising economy.

III. HOW NETWORKS WORK?

Networks relate individuals to one another, and shape interaction within dyads, triads and other groups such as cliques, at micro level. A common practice in the study of small-scale networks is to identify all the members of a particular group and to trace their various connections with one another[18]. At macro level, networks operate as linkages between various alliances and macro-institutions.

My focus is at meso level, interactions that take place between networks and form alliances, coalitions and cliques. I have identified direct or indirect connections within- and between networks. This is known as the *positional approach*. I have also selected a number of respondents because of their reputation. Combining the elites' reputational, positional and decision making measures, I explore power in network interactions.

Some recent trends in network analysis are that it reaffirms configurations of the macro-social order, and it recognises that network members can exploit the structural conditions[19]. In this regard, studies on elite-power structures in particular contributed to the debate on the existence of a cohesive ruling class that strategically use networks to further its own

interests[19]. The states having a strong patrimonial overtones extract resources from the economy and foster elites of different kinds allowing them privileged access to resources[2].

It is the *structure* of network relations, which is a combination of *forms* and *contents* of relations, that binds people together. The most important binding link is *trust* in networks. Trust is a form of confidence in probable outcomes of a commitment to fulfilling the legitimate expectations of others. The main factors that produce trust in economic and social life are *obligations* inherent in network relations[4]. *Obligations* and *trust* are important contents of various *forms* of network relations. Both *forms* and *contents* of relations explain what obligations are relevant for network members, and how trusts is created and maintained. *Structures* of relations imply an array of economic activities and social control, both at micro level and at macro level. Markets operate well only when they are supported by social networks. Granovetter claims that the anonymous market of neo classical models is virtually nonexistent in economic life [20]. This is not to suggest, however, that network influences are not contested and do not change. The relational *forms* and *contents* of relations may vary, network influences also vary.

By relational *forms* I mean strength and weakness of network ties. The strength of ties refers to density and durability of a relationship. Density describes closeness, intensity and the level of linkages among individuals within a network and is a measurement to summarise the overall pattern of connections [21]. *Forms* also include types of relations (reciprocity in relations or exchange) and the shape of connections, vertical or horizontal relations, and number of ties within dyads, triads and groups.

Closest networks tend to be those that are composed mainly of family and kin. The notion of family in Bangladesh includes extended family members, and kin members, who are tied to one another in varieties of ways. They are obliged to each other, they can claim equal treatment and a favour. Such obligatory practices exist among friends as well.

Friendship is a reciprocal relationship. There are close, strong lasting friendships, weak and distanced relationships. The degree of density and durability of friendship may vary. Exchanges between friends are mostly balanced horizontally. However, especially among casual friends, there may be an expectation of returns from such relations.

Alongside these two forms there is a third category; the focus of this paper. There are coalitions or alliances of political leaders, top bureaucrats and rich businessmen. These coalitions may take the shape of particular configurations of interpersonal relations, which often take the shape of cliques. The

main characteristics of such ties are instrumental relationship and exchange form of interaction.

The effects of these networks depend on their *contents*, which are characteristics of relations that express specific linkages among network members [19]. Contents may be sentimental, obligational, transactional and instrumental relations. For simplification I have narrowed these relational contents to a single typology of *social demands* and *social domination*.

By *social demands* I mean what are expected from people by those whom they interact with. Social demands include obligations to network members, cultural norms and values.

A rich family is socially obliged to help kin and a neighbour in need. For the rich, generosity and life styles have implications for the dignity of their families, which in turn help them achieving trust. Both dignity and the level of trust depend on their capability to meet obligations to various forms of relationships.

Friendship, a reciprocal relationship, can be instrumental. There may be an expectation of economic returns from friends. A casual friend who holds a top position in the bureaucracy or in politics gets special care because possibility of economic returns is there.

Alliances and cliques are dense, but fragile relations. Those also contain some aspects of obligations and the norm of reciprocity, but, characterised by particularistic reciprocity. One's position in a party defines his obligations to other members of the party.

The notion of *social domination* includes distribution of power and economic resources. The family and the kinship system have important influences on the process. A family with high status enjoys privileges regarding distribution of wealth. It is also a guarantee for one's power. In the case where family's social position does not work one can get access to power and move upwards through other connections. Therefore, the elites I am talking about maintain various networks. They hold top positions in prestigious clubs, they are office bearers of larger business associations, Chambers of Commerce and Industries, in a political party etc. Some members have core positions and some intermediary positions. Their interests vary by economic functions of their position within a coalition or association. Thus, coalition relations may be characterised as resource dependencies of members within a coalition. Dependencies can take vertical and horizontal form. Variations in the distribution of resources and power affect the patterns of vertical and horizontal interdependence.

There may be temporary coalitions of relatively small, informal groups of two or more persons, within a political party or within bigger coalitions.

These groupings usually emerge when one wants to strengthen his or a group's position and influence within a political party or within a coalition. Such groupings often take the shape of cliques. Cliques are used for creation and maintenance of opportunities for clique members, to strengthen one's position and influence within a party or in an alliance. The structure of relations within a clique runs counter to formal organisations.

Coalitions and cliques can be described as alliances of power networks. Like obligation and trust, power has a net-like structure interlinking various positions, both vertically and horizontally. Relational contents of a power network include obligations, sentiments and more importantly authority and power.

Structures of power networks

In Bangladesh, the power to make decisions is seated in political, military and bureaucratic institutions. Economic institutions and business interests are linked with decision makers in those institutions. Political leaders, top bureaucrats and rich business families have always tended to come together to form power triangles through creation of mutual cooperation and reciprocal dependence. Both mutual cooperation and symmetrical dependency perpetuate horizontal relationship among them.

The distribution of power is not always even. The uneven distribution of power depends on the nature of flow of resources and one's position in a coalition. In a situation in which resources flow from the political-and bureaucratic elite to the business elite power lies with the former two groups. Next, one's position in the network structure is crucial for his power. Major political parties have their student front, labour front, youth front etc. Top political leaders maintain ties with the leaders of these fronts. Both these two forms of power distribution take the form of vertical patron-client relationship. A patron has dominant position and holds central power. Businessmen, student leaders, and trade union leaders are dependent on their political patrons. Thus, there are hierarchies or different layers in the internal structure of those networks.

At the top level of the hierarchy are core party members. They participate together most often and intimately and they have *centralised power*.

The next level consists of intermediaries and groups of local strongmen, (*mastans*) and sycophants (*chamchas*). Both these groups participate with core members, on some occasions but never as a group by themselves. They are clients of the party leaders and they have *nominal power*.

There are groups of those people who lack resources and communication channels to form coalitions. They may contact the core members through intermediaries, those with *nominal power*.

They participate only infrequently and they have *fragmented power*.

These levels of hierarchy are crucial for the relative strength of network members and for their access to resources and power. A person's capability to extract resources depends on his position in the hierarchy.

Political ties and coalitions are instrumental relationships. Those also contain some aspects of reciprocal obligatory practices. Unlike family and close friendship, but like casual friendship, the notion of reciprocity for these categories implies not a balance in give and take between who provides with supports and who receives. Such relational contents have its origin in rural social organizations of the economy and power structure. In the rural society the traditional rich families are tied together mainly through kinship relationship. And there exist obligations to support a fellow villager. There are other alliances among them and there may be conflicts among them. They share power. They also compete for power.

Social demands in villages include that a rich family shows its consideration of helping the members of the village society, whenever they in need. There exists dependency of the poor on the rich. A rich person is stronger and powerful and may "direct much of his efforts towards an imposition of his own conditions in the give and take of the relationship and in circumscribing and controlling the scope of action of the weaker party" [23.p. 10].

Networks work because structures of relations connect people with one another. Those are also connecting links between the elites and macro-institutions. Those operate at micro-level, meso – level and macro-level. Power networks work as mechanisms of securing access to economic resources and political power. Members of various networks come into alliances when they want to share power. They also struggle and compete for power. The question now comes to the fore is how alliances of power networks are created and maintained.

How power networks are created and maintained.

Various informal social gatherings are measures to keep coalitions and alliances alive. The core members of any coalition maintain direct contact among themselves in distinguished clubs and exclusive hotels. They also arrange frequent dinner parties to promote repeated interactions among them. Other mechanisms include exchange of gifts on various social occasions; at birthday parties, wedding ceremonies etc. Gift giving is regulated by a norm of reciprocity. Failure to do so may result in isolation. Elites of all kind make efforts to avoid isolation from the coalition.

The political leaders donate to a club or an association. They want the loyalty of those who receive donations. Those who are bought are obliged to reciprocate in the form of support during elections, for instance.

For rich businessmen, top bureaucrats are in their pay roll. They also make regular donations to party funds, to student and labour wings of various political parties. All these activities further help them to obtain a higher position within a coalition. They sit together on government and corporate committees. They make use of networks as resources in acquiring even more resources and power. These practices are illustrations of particularistic reciprocal exchange relations within politico-business alliances.

Donation to a political party is not always voluntary but sometimes imposed upon. If a businessman declines to contribute, he may be forced to do so. A top businessman who belongs to another party may be offered a higher position in the party. If this does not work, and if the ruling party is involved, the intelligence agency may be employed in order to charge him with forgery, default in loan payment or under-invoicing.

Within the elite circle, there is a strong desire to be recognized as affluent. Donations, gala parties, charity and grand parties serve such a purpose. With similar objective the rich families arrange grandiose wedding ceremonies. The number of guests, including the distinguished social elite, has significant impact on one's name and fame. People talk about the ceremony. The elites also create trust of others through extravagant wedding ceremonies. People trust those who maintain tradition, who can show their capability to host thousands of guests. Their financial strength in combination with connections with other people with reputation and power strengthen the level of trust. Thus, one can add more to his stock of social capital. The political elite and the business elite in particular invest more than the bureaucrats in creating stock of social capital.

The logic is similar to that of the credibility of a borrower. A bank evaluates the borrower's capacity to pay back a loan. A good reference is of great help. A political leader's financial strength is important for his level of trust in the society. Therefore, the amount of money an ambitious leader can spend in election campaign is crucial for his possibility of being elected. Expenses in connection with election campaigns thus go beyond all standards. Even at a lower level election such as union council or municipal corporation election a candidate invests more than 500,000 taka (U.S.D 10,000). The candidates competing for parliamentary election spend more than one million taka (U.S.D 20,000). Such investments can not be compensated by means of official remuneration. But they know that money invested can be realised within a few months of their

tenure. The power of a core member, within a clique, depends on a self-fulfilling reputation or recognition.

Both political leaders and businessmen want to ensure a clear spread of ranking in order to increase the number of networks and distances of identities. Events and identities do embed action in further levels of the creation of still further identities. A set of such ties could embed into a team, or into an identity. Thereby, the cliques grow by the process of 'folding-in' as is explained by Coleman [22] and Burt[21]. Folding-in process works across the different networks and tends to yield clique membership across several contacts of the elites. Such connections grow both within a network and between networks. If one or more clique members have a connection outside the network, the other members of the same networks tend to assimilate him.

The political elite maintain hierarchical relations with the intermediaries. This group consists of, as mentioned earlier, student leaders and trade union leaders. There is also another group known as *mastans*, meaning musclemen. The relations are characterised by a two way dependency. Political leaders patronise the intermediaries who protect their patrons. The intermediaries concern groups of people who have the role of power broker. A large group of the urban poor are forced to maintain some kind of connections with these intermediaries in order to secure their livelihood. The intermediaries take the issues of the poor to the elites and derive a commission on anything that was supposed to help the poor. Because of their links with the core, the intermediaries can use the political elite as its protection from the state. They enter into co-existence with the political elite.

All these forms of network connections mean greater stock of social capital that opens up more avenues for privileged access to resources. Therefore the elites establish connections, as wide as possible. They also struggle for identity and access to resource. One or more member(s) of a network want to control the behaviour of other members by offering or withholding some benefits. Thus a power-elite is established at the intersection of social formation; a dominant elite maintaining privileged access to resources and struggling for identity and control over resources.

IV. POWER NETWORKS IN THE MAKING OF THE RICH

I mentioned earlier that gift giving is regulated by a norm of reciprocity. The norm of reciprocity also implies that the return may be a favour. A gift implies the likelihood of a continuing relationship in which gifts and favours continue to be exchanged. Similarly, high officials think of dinner parties, and banquets, are owed to them by a businessman.

Exchange of gifts, services and favours among the elites is embedded in expectations of continuing informal relations. Gifts, favours and resources flow among the elites. Businessmen establish links with the power brokers who are capable of doing favours like granting loans, foreign exchange, allowing the import of desired commodities, allocation of a plot in the posh residential areas etc. Favours also include not being caught for tax evasion, smuggling, black marketing etc.

In clubs and other informal social gatherings, the business elite, the political elite and the bureaucratic elite maintain a system of personal connections at all levels of government based on 'tadbir', a process of cajoling and lobbying. Lobbying is used to secure a direct representation both at political and administrative decision making. Decisions are tailored to suite the needs of the elites of all kinds. The formal policies are rigid however exceptions and exemptions can easily be enforced, which requires investment in personal ties. Every policy can be manipulated.

Access to material resources and political power takes place via a series of relations, entailing connections between network obligations and favours. I have categorized these relations into two major forms of network connections: P- connections that include patronisation and politicisation, and C-connections of different coalitions and cliques.

P-connections: Patronisation, politicization, privileges, and power

P-connections imply dispensation of power and patronisation of party affiliates by the top leaders, and politicization of business, administration, education etc.

Patronization means resources and favours flow from the core members to the intermediaries. Because of their central position top political leaders can and do take shares in all government contracts. They acquire large property from the state. Other members and the intermediaries have to depend on patronisation from their leaders. Political leaders are engaged in long-term relations with the intermediaries. Different kinds of favours flow down, including employment, public works, a big loan, import licences etc., and loyalty, political support and votes flow up.

The economy of Bangladesh came under state control, right after its independence in January 1972. The existing norm of particular reciprocity posed problems for the ruling party. The socialist policy clashed with the patrimonial character of the party in power, which did not allow for the state function based on impersonal norms. The core members of the party came to depend on a dense web of networks of close political associates including the top student

leaders, sycophants etc. They all urged the leadership to wield more executive power to the fountain of patronage.

The socialistic policy was followed up by the creation of import-substitution industries. A number of private sector projects were sanctioned and resources made available, using public money channelled through so-called Development Finance Institutions (DFIs). Many who received permission to establish a factory, simply created an industrial project. Licences for importing machineries and spare were sold at a favourable exchange rate in the open market.

There was a group of young aspiring party members. They had little capital but had education and contacts both with political and bureaucratic elites at home and manufacturers abroad. This group took the role of 'intermediary' between the state and foreign manufacturers. They worked as local agents for the foreign manufacturers and were called *indentors*. Imports of luxury items (fridges, television sets, electronic equipments) as well as necessary items (cement, sugar, cotton, fertiliser and machinery) by state trading houses etc., required the intermediaries. Due to their contacts with top political leaders they were capable of including the products they were representing for. Economic returns from such activities were very high, and the intermediaries got rich overnight.

The military elite was annoyed with the dominance of the political and bureaucratic elites. Their rifts developed into confrontations, and even armed clashes between the party members and some aspiring military officers. A drastic consequence was the brutal killing of the father of the nation on 15th of August 1975, by a group five military officers. The incident paved the way for the politico-military elite to dominate in Bangladesh.

Since August 1975 there were different successive regimes led by military generals until 1990. All those regimes depended heavily on the loyalty of the armed forces. The first military regime allowed the generals to share the state power with the civil bureaucracy. The army officers were given important portfolios in the state apparatus. Thus, the regime was characterised by a *politico-military network*. Anderson viewed the existence of such a network as "a marriage of convenience existed between the military and the civil service" [24. p. 445.)

Meanwhile, a group of ambitious young military officers felt that they did not receive equal financial benefits from their patronage, resulting in effect a factional struggle within the army. There was also lack of trust between the ordinary soldiers and military officers. Furthermore, the alliance between the rich trading group and the military elite was strained by intra-network conflicts over control of the

patronage derived from access to foreign aid. The president also strained his personal relationship with some of his close allies that caused his death on 30th June 1981.

The new President, also a military general, formed his own political party. The culture of patronisation got a new dimension. The President's Secretariat functioned as a brokerage house with telephone calls requesting contracts, import licences, or loans.

The major opposition parties, deprived of patronage, came to an alliance. The alliance through mass agitation forced the President to resign.

Three general elections, since 1991, brought changes of governments, but no fundamental changes in culture of patronage. For aspirant businessmen, contribution to party funds was not only an option but an obligation. They had to extend financial support to political leaders and their relations, directly or clandestinely. Doing so they were able to seek direct intervention of people in the upper echelons of the decision making process to see that a loan was approved or claims for default repayment not pressed too exigently. Licences, contracts, tenders, positions, favourable treatments, absence of harassment, protection etc., depended on toeing the political party line in Bangladesh. The norm of particular reciprocity (of network relationships) resulted in a highly particularistic pattern of politics. Policies were made intentionally vague, thus, those were easily manipulated to suit the needs of the elites.

Policy manipulation contributed to the pervasive patronage. The role of the intermediaries became crucial. Their relations with the political leaders put them in a position to manipulate the system. They demanded a regular toll (chada) from traders, merchants, and small businessmen. There were very few places where one could enter without paying a 'toll' to these *mastans*. A recent development is that the most academic institutions came under the control of the *mastans*. For any construction works at the university campus and the supply of equipment to the university, the 'contractors' now have to give a share of the total amount to the *mastans*. At various universities most of the student leaders themselves have now become *mastans* and 'contractors'.

In short, a wide variety of formal and informal channels of access developed that permitted considerable penetration into the close circle of government decision-makers who allocated scarce resources such as credit, foreign exchange, import licences and loans. Access and influence were directed at the political and bureaucratic levels. Thus, the multiplex tie contributed to allocation and to distribution more generally. This was at the root of clientilism. The constraining relationship of patronage and clientelism between the political

leaderships and the intermediaries perverted the functions of the state as well as of the market.

In Bangladesh politics, changes in governments have always followed by changes in the top administration, government and non government institutions. In educational institutions, a Vice Chancellor of a university was replaced by a new professor who supported the party and the new government. The student wings of every government in fact enjoyed more power than the university administration. The student leaders' intervened when a teacher was appointed and students were admitted into schools, colleges and universities.

As mentioned earlier that the first party in power in independent Bangladesh rewarded its supporters by filling the ranks of bureaucracy with individuals who had strong connections with the leaders. The recruitment of these new bureaucrats reflected not bureaucratic standards or meritocracy, but political affiliation. Therefore, they were prone to respond to particularistic pressure from political leaders, as their security depended on the mercy of the political leaders.

All the regimes in post-1975 Bangladesh provided a larger role to the market. But, larger investments were tightly controlled and regulated by the state, in reality by the ruling party. The party determined which projects would be financed by the Development Finance Institutes (DFIs). The DFIs became a system of de facto grant disbursement. Well-connected elites treated loans as grants. The banks got instructions by the party to lend specified amounts to specified clients. There was no compulsion for repayment. Rather, the defaulters got even bigger loans. In fact, the government used the system to create a new rich class.

During the period 1975-1990, the state was run by two military Generals. Both maintained support by providing various elites with tangible rewards. The military officers were the most favoured group. They were given key posts in the state administration. The high-ranking military personnel were given a share in the political system by allowing them continued access to state resources. The retired generals, brigadiers and colonels were placed in different ministries as secretaries, who were the major decision makers. Businessmen and different Chambers of Commerce and Industries hired military generals because of their contacts and easy access to their former colleagues in the military, including the President [13]. The businessmen's success depended on their capacity to secure direct elite representation at the military level, as well as at political and administrative levels of decision-making.

Businessmen who were major loan defaulters contributed to party funds. Both the Generals mobilized support through generous loans and contracts to loyal businessmen. Some industries, still

state-owned, were sold to a small group of so-called industrialists. They received rapid approval of loans, large government contracts, generous DFI fundings and special import licences. They were immune from pressure to repay. They also had little difficulty in receiving new loans.

In the previous section, I have described the centralised nature of power distribution. The highly centralised style of decision-making and the predominantly reciprocal network structure dominated by political affiliation and clique ties have combined to place major emphasis on informal and personal relationships. The bulk of business, political and government dialogue have been conducted through personal contacts based on relationships amongst elite business families, top bureaucrats and political leaders. Private ownership coupled with the potential impact of government monetary, fiscal, trade and import policies created a mutual and reciprocal dependence that necessitated close working relationships between business elite, political elite and the bureaucratic elite.

Access to the top elite in Bangladesh including the president, the prime minister, ministers and the higher echelon of bureaucracy took several forms. The government of Bangladesh established a wide variety of formal advisory committees, commissions, councils and boards on which top businessmen, top bureaucrats, military generals and political leaders are represented. Thus, all the elite sub-groups have been successful in securing direct representation at both political and administrative levels of decision-making.

Clearly, the services by state institutions were under the disposal of the privileged elites. Connections circumvented institutional functioning as patronization and politicization got institutionalized in Bangladesh. The elites of all kinds took all their efforts, to pursue their interests, through employing the state institutions and organisations. There was competition to control the state institutions among the elites who formed different cliques.

V. C-CONNECTIONS: COALITIONS, CLIQUES AND COMPETITION FOR POWER

There was uneven power distribution among the members of a political party or an alliance. Different cliques often emerged as the elites made efforts to maximise economic returns and secure political power. Clique connections involved different segments in a particular network and fragments from different networks that constituted coalitions of segments and fragments. Conversely, the particular structure of clique connections allowed division of potential rivals from forming coalition.

I mentioned earlier that during the first regime the economy of Bangladesh came under state control. But, the particularistic interests of core members of

the ruling party did not allow impersonal state bureaucracy to interfere in the process of sharing power through patronage. This resulted new coalitions, as well as tension, between the dominant elite (consisted mainly of the centrally located party leaders, and a few top leaders of the student faction of the party) and the dominated elites (leaders of other student and labour organisations). The leader sided with the dominant elites and by sycophants.

Under the successive regimes, the bulk of business, political and government dialogue were conducted through personal contacts based on relationships between elite business families, top bureaucrats and top political leaders. The impacts were mutual and reciprocal dependence that necessitated close working relationships between business elite, political elite and the bureaucratic elite. Collectively, through business associations, political affiliation, reunions, through personal connections within cliques, all the elite sub-groups enjoyed a variety of direct formal and informal channels of access to government decision-makers.

The elites through clique connections struggled for controlled over resources. The pervasive form of strong clique could be observed in December 1997. The party came under pressure from such cliques. Before, there were almost no activities in the financial market. A group of companies started buying all the shares from the market. The core leaders asked the central bank to lend money to the big buyers. The price went up. Simultaneously, the party asked publics to buy more shares. When the price reached the top, the big companies sold their shares overnight as there were plenty of buyers. Within a week the price of the shares fell down to one third of the face value of each share. The big companies earned fortune, while the mass small buyers lost everything. The big companies paid heavily to the party. They were also allowed to transfer a major portion of their profits out of the country.

The point is that in Bangladesh's backward economy, there are more powerful adverse forces with greater influence in determining fate of the state and the market than their own performance. An outcome was increased inequality in terms of access to resources. While resources are concentrated into the hands of small elite groups (political, bureaucratic, military and business elites) the poor masses live below poverty level. Such a contrast is also the characteristic of many South Asian countries. "The dominance of a narrow band of elite- consisting mainly of land lords, bureaucrats, big industrialists, and military officers- reflects the concentrated nature of political power in South Asia"[17 p. 4].

VI. DISCUSSION

Emphasising the notion of embeddedness, I have located the problems of institutional capacity in the particular form of interactions on two major dimensions; how structures of relations affect economic activities including access to resources and power, and those set limit institutional function. In this concluding discussion I indicate how the findings relate to relevant theories, and suggest some lessons for development research.

The findings come close to three network hypotheses; the inequality hypothesis, the contagion hypothesis, the social construction of corruption hypothesis.

I have explained how various elite sub-groups have more resources and power than others. This accords Coleman's rational choice theory that explains how exchange relations and the interdependence of interests within an organisation or system make certain actors stronger or powerful than others[22].

I gave an account of how power networks emerge as a set of ties embedding into a team, and cliques grow by a process of 'folding-in'. Contagion hypothesis, also of Coleman, is about how network structures draw two or more individuals together [22].

The case in hand is an evidence of how a particular form of interaction, characterised as reciprocity, allows power elites pursuing their interests thorough exercise of power and use of their positions in appropriating state resources. The norm of reciprocity also allows exchange gifts and favours. The case thus accords Granovetter's notion of social construction of corruption. Such practices prevail due to the configuration of social networks and status differences between those who need favours and those who are in a position to provide them [25].

The three hypotheses direct our attention to embedding hypotheses both of Polanyi and Granovetter: how networks and institutions shape economic activities, as well as how are those created and maintained in order to manage relationships that would otherwise be difficult to transact. Granovetter in particular is clear on network structures and economic behaviour.

What does embeddedness mean for development (or underdevelopment) of a society?

Conventional theories, both of development and of underdevelopment, took a dim view of network structures, and societies where economic activities were embedded in non-economic obligations. Although many theories pointed to causal factors in underdevelopment, no single theory has proved adequate to the considerable task of explaining retrospectively and prospectively, the route to

successful development, or causes of underdevelopment.

The assumptions of neo liberal approach are mainly based on empirical evidence in Western industrialised societies. The evidence of free market development in the West is however disputed. Be that as it may be, the problem is that developing countries, such as Bangladesh, hardly fit into such a model. In these societies, the market is not free from personal ties. In fact neither is the market completely free from personal ties in modern western market societies. In Bangladesh, a developing country, it is a norm rather than an exception that kinship, political affiliation and the like are required for one's rights of access to credit, loan etc. What appears to be a predominant phenomenon in Bangladesh is that elite networks of different types do not allow for the functioning of impersonal market norms. The state also cannot provide the right framework for market forces to flourish.

The new institutional approach relates the notion of norms of reciprocity in civil society with the implementation of development strategies. As the case in hand suggests, the civil society may be an arena where economic organisations take shape, however, in varied forms, and hence, there are varied effects of civic engagement and social capital. Civic engagement can disrupt the power of particularistic interest groups and make change possible. Social capital may have positive effects on development. Those societies, such as North Italy, Kerala etc., which have a good stock of social capital, achieved developmental goals. Conversely, political parties' alliance with particular networks may disrupt civic engagement aimed at developmental goals. My observation indicates a problem, which is ignored in some varieties of social capital theory, that social capital for one group is not necessarily social capital for other groups. One relevant question is: The stock of social capital for whom? Answering this question requires identifying different forms of social capital and recognising their causal conjuncture.

Social capital theorists do recognise different forms of social capital. Putnam distinguishes two forms of networks: horizontal and vertical. Horizontal networks bring together individuals of equivalent status and vertical networks link individuals of unequal status in asymmetric relations of hierarchy and dependence[10. p.173]. For Putnam, civic engagement requires horizontal interactions, which have the most beneficial effects for the society as a whole. This kind of strong civil society is also likely to translate into a strong and accountable state. Vertical networks contribute to solving collective problems to a lesser extent; individuals depend on one another, through hierarchic, uneven, terms.

Coleman recognises obligations and expectations, information potential, norms and effective

sanctioning, authority relations, appropriable social organisation as social capital. Coleman also finds a commonality in values, which can be used as resources to realise the interests of all.

Ostrom and Ahn identified three broad forms of social capital: 1. trust and norms of reciprocity, 2. networks, and 3. formal and informal rules. Trust is the core concept that is affected by networks and formal and informal rules, as well as by contextual factors[26].

All these distinctions are important. Now the question is how to explain under what social circumstances a particular form of social capital is generated that result in synergy effects. I also raise the question whether a form of social capital for a particular group is also social capital for others.

Causal conjuncture may take different forms in different social contexts and under shifting conditions. Contextual factors are important to understand why people put trust in networks or in institutions. I mentioned earlier, a critical phenomenon in many developing societies is that the elites have the capacity to employ the state to pursue particularistic interest, which underwrites the state's capacity as well as peoples' trust in the state.

Following Coleman and Putnam, a step further, one can say that a low level of trust in the state is due to undermined systematic or generalised trust. Putnam claimed that there was more social capital in Northern Italy than in Southern Italy; whereas the horizontal networks enhanced co-operation in Northern Italy, vertical networks of clans or Mafia constrained co-operation in the south. Now the question is whether such vertical networks are social capital for the people in Southern Italy?

One form of social capital may enhance co-operation and another may set constraints to co-operation in attaining common goals on behalf of a large community. Weaker networks of horizontal relations are important in sustaining collective actions.⁴ On the other hand, investments in networks generate horizontal connections among elites, as well as vertical relations between them and their clients. People put more trust in such connections. Assessing the role of civil society and social capital in development requires investigating the internal dynamics of network structures.

Modern developed societies have undermined the role of more damaging elite networks. The success story of the newly industrialised countries also

⁴This is in agreement with Granovetter's notion of the strength of weak ties. Conversely, as in Bangladesh, strong ties of dense networks of relationship do not permit dissemination of information to the wider social arenas. There, limited networks of elites or cliques engage in mutual reciprocity at the expense of the larger social groups. This issue is taken into consideration by Ostrom and Ahn. Ostrom E., and Ahn. T.K.: 2001.

manifests the capacity of the state in defying unproductive elites and channelling surplus to productive investment. The state in Bangladesh failed to perform these tasks. Predominant elite networks infiltrate the state and weaken its performance in its own right. This also explains the state's failure in providing the right framework for the market to function. The level of trust in the state and the market is the critical issue. It does not follow from this that trust in personal contacts must be wiped off. The point is rather to suggest that trust in personal contacts must complement trust in formal institutions. An account of the Network Embedded Trust will make my point clear.

NET-works: Network Embedded Trust and development

Polanyi explained how state was involved in the development of market societies in early industrialising Western Europe. Later studies suggest that state intervention frequently serves the purposes of particularistic interest groups by allowing them their privileged access to material resources and thus creates surplus-extracting state elites in most developing societies[11]. Unlike the process described by Polanyi, the state has been used to promote non-market forms of accumulation. There is evidence of how state intervention leads to 'rent-seeking' activities and unproductive income-earning economic activities result from monopolies created by state regulation. The government is not an independent actor rather it is used as a vehicle to secure the interests of the privileged classes. The state itself contributes to the process of differentiation[28]. Interest groups are allied with each other to shape public policies in many developing countries[29].

For Polanyi ways in which economic activities are organised are different '*social arrangements*' that reconcile human needs. Differences in '*social arrangements*' generate different interests. Ways in which the economy acquires stability (the interdependence and recurrence of elements of the economy) may show different patterns. A combination of patterns is called transactional mode or a *form of integration*, of which there are three

main forms: 1. *Reciprocity*; 2. *Redistribution*; and 3. *Exchange*.

Polanyi explained social transformation as changes in *forms of integration*, which however must be distinguished from stages of development. In earlier societies, production, saving and consumption were defined by *reciprocal* norms. Political and religious institutions performed the *redistributive* transactions. With the process of institutionalisation of '*exchange*' as the form of integration, the role of other social relations and institutions became weak. Polanyi claims, the *exchange* mode integrates market societies in a strictly economic sense and the self-interested economic man is a product of the market.

In a society where the form of integration is predominantly reciprocity, people are more obliged to satisfy network demands than those in a market society where the form of integration is exchange. In efforts to maximise economic gains, those networks may be used. In Granovetter's word, "what looks to the analysts like nonrational behaviour may be quite sensible when situational constraints, especially those of embeddedness, are fully appreciated." [25.p.75]

Granovetter takes neither institutions nor individual as independent variable but networks of relations as objects of analysis. It is due to his claim that the economy is embedded in social networks and the market itself is a form of social relations. Economic actions take place in interaction with others. Networks of interaction produces trust in economic life, those also suppress malfeasance. Empirical studies show that there are many circumstances where it would profit actors to invest in business but the absence of trust in the relevant social groups or networks- make this difficult or even impossible.

Granovetter further asserts that the process of modernisation has brought little change in the level of embeddedness and calculative rationality is common in pre-capitalist societies and less universal in capitalist societies[4]. It is due to his particular attention to market societies. In my view the economy is embedded in every society. I also think that the level of embeddedness changes with the processes of social change involving an alteration in the form of integration followed by changes in orientations of action.

Figure 1: Forms of integration or modes of transactions and social relationships.

Social relationship expressed by transaction	Transactional modes		
	<i>Reciprocity</i>	<i>Redistribution</i>	<i>Exchange</i>
	Friendship	Political or	None
	Kinship	Religious	
	Status	Affiliation	
	Hierarchy		

Source: Dalton, 1971:xiv

The principal aspect of social change in the market societies shows an increase in the range of transactions to which market principles apply. The norm of reciprocity that characterises developing societies may persist in market societies, but, not as principal norm. There, transactions more akin to exchange hold the society together[29]. Unsatiated wants and division of labour create exchange. Exchange may also exist in developing societies, however, exchange in advanced societies is rationalised by reference to price systems, credit systems etc., which operate through impersonal relationship. Even Polanyi's critics agree that social transformation and hence economic growth, is based upon institutional changes of which the growing complexity and sophistication of exchange is the major index [30].

Granovetter has an important point. Modern market economies are embedded in ongoing social relations. But it is only a fraction, which has become 'reembedded' after a massive process of disembedding. In most developing countries, the process of disembedding has never come very far. There, individuals' obligations to family have important impacts on their economic activities. Social demands compel people to arrange expensive wedding ceremonies in India, Bangladesh and in other South Asian countries. Gift giving helps cementing enduring relationships between individuals who are destined to transact with each other. People are socially obliged to extend favours to those they interact with. Granovetter himself refers to family alliances in maintaining control over resources. Such alliances manifest the strength of strong ties. Granovetter cites the example of 22 families in Pakistan, such alliances are evident in form of elite networks or alliances between different kind of elites: bureaucratic, political, military and business elites which is effective ways to get and maintain access to economic and political power.

Individuals' attachment to society via social relations may take different forms. Social changes, modernization, involved changes in the form of attachment, expressed in increased individualism, institution based trust[31]. It particularly appears in the manifestation of exchange relations (as claimed by Polanyi), increased formal rationality and the extension of purposive rational action in modern market societies, as claimed by Weber[32]. Weber viewed the market in terms of exchange and highest degree of formal rationality implying the absence of influences restricting market autonomy. In developing societies, formal institutions and market relations are poorly developed. The obligation to support kin and friends forces a businessman to employ them though not required. People trust those whom they interact with frequently.

In many developing societies, as in Bangladesh, it is the reciprocity form of interaction that shapes the base of types of institutions and networks enabling the creation of a framework for the economy. Individuals' choice of means to attain their goals also depends on such form of interaction. They use networks to interpret and adjust to institutional arrangements, social relationships and the economy. Trust is embedded in family, community etc., which provide security, ensure access to material resources. Prestige, honour etc., may appear as obligations. Network norms are important for how people earn and spend money. It may be rational to invest in political parties or matrimonial purposes. Such investments take place since the norm of reciprocity, featuring the form of integration, has the capacity to employ both redistribution and exchange.

In reviewing theories on state-market-civil society I stress the usefulness of the notion of embeddedness to study economic activities and development. I also claim that the notion of embeddedness should be combined with a series of interrelated concepts. I think of obligations, rights and trust. All these are

Figure 2: Forms of interaction and social bases of trust .(Figure 1 modified)

Forms of interaction			
	Reciprocity	Redistribution	Exchange
	<i>Strong personal relationships</i>	<i>Formal relationships and weak personal but ongoing network connections</i>	
Rights, obligation, and trust in	Family, Kinship Friends Other relations: Elite networks; political-bureaucratic-business alliances, clique etc.	State	Market

important tools to assess embeddedness and to reveal network influences on institutional function. It is the capacity of networks to secure people's rights that determines whether people put their trust in institutions or not. In backward economies, as in Bangladesh, institutional functions and individual economic activities are more influenced by social networks than in economically advanced societies. The success of macro institutions depends on their interplay with interpersonal networks

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