

On state and markets

BENEATH THE SURFACE

Yujiro and Yoshihisa argue that both the market and the state are indispensable for allocating resources. One needs to clearly identify the failures of the systems and eke out a thread of combination that works well in terms of efficiency and welfare. For developing countries it is especially important to recognize that the types and magnitudes of both market and government failures are different for different cultural heritages as well as for different stages of development.



ABDUL BAYES

Ensure good boro crop by all means

Diesel crisis needs resolving in quick time

BORO farming has been hit hard by an unanticipated scarcity of diesel persisting in the northern region during this peak time for planting this variety of paddy which accounts for 55 percent of our total rice production.

The crisis stems to a great extent from some six fuel laden vessels having got stuck near the river port of Baghabari due to poor navigability. Clearly, the serious transportation bottleneck has ruled out any timely distribution of diesel across to the northern districts of the country. Thousands of irrigation pumps are lying idle. And, as the time is running out for plantation, the farmers have become agitated at the scarcity-induced unaffordable high price of diesel.

As a contingency measure a floating depot with the capacity of distributing only 750 tonnes of diesel as against the daily demand of 22,000 tonnes has been opened. The gap between supply and demand is evidently large. Even more worrying is the news that the Petroleum Corporation has only 12 days' reserve in the depot. It is not at all clear what will happen when the stock is exhausted, nor do we know why a matter of such grave importance like keeping the irrigation pumps going has been pushed towards uncertainty.

The stakes are too high in a good boro crop which involves something like 12 lakh tonnes of diesel in the peak season of January to operate over one million pumps for irrigating the boro fields.

Matters must improve in this area in order to avoid any debilitating blow to the national economy. Our GDP growth calculations will be upset if rice production declines. The severe diesel crisis affects the sector at a time when we are looking forward to a greater contribution from the sector to the GDP growth rate.

The crunch situation calls for a quick resolution by improving the stock position and the distribution mechanism afield.

Four more months

Question mark on govt sincerity deepens

IT is with a sense of weary resignation that we learn of the government's plans to appeal to the Supreme Court for yet another extension to the deadline for the separation of the judiciary from the executive.

This would be the 22nd time that the government is going to request an extension in order to fulfill the directive of the court, and while we would like to say that we are surprised and shocked by such contemptuous disregard for the court's orders, the truth is that we are neither.

The law minister in justification of the additional delay makes the irrelevant and spurious point that the last AL government also did not manage to separate the judiciary from the executive in the one and a half years it had in office after the Supreme Court had issued its directive. Please. One, the last government's failures in no way excuse the failures of this regime. More to the point, the current government has had four and a half years -- three times as long -- in order to effectuate the order.

The issue now, the law minister earnestly assures us, is that of the logistical difficulties of replacing some 640 administrative carders with judicial magistrates. There is no doubt that this is indeed a significant logistic issue, but does the minister really mean to suggest that his ministry is so incompetent that four and a half years is not enough time to do so.

But let us get to the heart of the matter. It is patently clear, and it has been for some time, that the government has been insincere on this issue from the very beginning. Despite its pre-election pledge, it never intended to separate the judiciary from the executive. The nation is bluffed and now it is attempting to bluff the court.

The government's prevarications have made its intentions perfectly clear to those who have been watching this distasteful spectacle. Looking at the evidence of the last four years, who could be blamed for reaching the conclusion that the government has all along had zero intention of separating the judiciary from the executive as doing so would end its control over the judicial machinery.

theory, and current development issues. It is, as if, telling the tales of travels of how nations graduated from poverty to opulence, from backwardness to development. The book is also, seemingly, sympathetic to non-economists -- pointing to policy makers -- by not involving much of econometric works.

Market and state

Yujiro Hayami and Yoshihisa Godo opine that, in terms of the nature of transactions, market and state are at opposite poles: market is an organization that coordinates the production and consumption of goods and services through voluntary transactions while the state is an organization to coordinate people's activities by monopolizing legitimate coercive power. Thus, they stand diametrically opposite as far as resource allocation is concerned. But, barring small subsistence economies, market and state can also be construed as inseparably interdependent.

For example, market cannot function fruitfully unless property rights are resolved by the state through enacting laws and enforcing contracts by courts and police. The state, in turn, is dependent on market for cost-effective resource generation. In the words of the authors: "Thus, no economy of any contemporary significance oper-

ates without the state and the market. Differences in economic systems reflects a difference in the way in which the state and the market are combined, i.e. which aspects of economic activities the state is in charge of, which aspects are left to the market, and how strongly and widely market activities are controlled by the state's administrative organization -- government. It is a matter of degree. The question here is what combination of these two organizations would optimize the growth of developing economies."

Market matters

The orthodoxy of economics, from Adam Smith and the English Classical School to the neoclassical school, considered competition in a free market as the basis of socially optimum allocation of resources. Under these conditions, there should be no need of government interventions. Pareto optimum prevails and efficiency in resource allocation augers well under the aegis of "invisible hand," division of labour, or persuasion of personal interests. By and large, efficiency in resource allocation under market economy dominates deliberations of development economists -- including that of the authors I referred to earlier.

However, in the book Development as Freedom, the Nobel Laureate economist Amartya Sen

lamented that the focus in assessing market mechanism has tended to be on the results it ultimately generates, such as the incomes or the utilities yielded by the markets: "That is not a negligible issue. But the more immediate case for the freedom of market transactions lies in the basic importance of that freedom itself. To deny that freedom in general would be in itself a major failing of a society."

So much market matters as a field of freedom that Amartya Sen added the fall of socialism in economic inefficiency of the communist system as well as to the denial of freedom in a system where markets were ruled out.

Market failures

Despite allocative efficiency and the freedom fetched from market, market mechanism had been severely subjected to criticisms on many grounds. Yujiro and Yoshihisa present a few of them. First market failure emerges in the supply of public good where property rights are not specified to result in "free riders." Second, some private goods such as automobile could be "public bads" because of air pollution, and market mechanism overlooks the social costs. Third, asymmetric information results in monopolistic competition, and finally, the market is the mechanism to promote economic efficiency but not to improve income distribution. Further, J.E Stiglitz pointed to new market failures embracing costly information, transaction costs, and the absence of futures markets that extend the range of market failures beyond the earlier attention to public goods and externality.

Graceful government

After World War II, as we all know, the governments of Asia and Africa turned to economists in the US or UK for a recipe to realize economic independence. At that time, grand

models of development strategies that involved structural transformation and an extensive role of government, with an eye on raising the per capita income, lay at the heart of the approach. The suggested models and hypotheses, from the western advisors, highlighted the role of a strong state sector on the heels of pervasive market failures that underdeveloped countries are faced with. To correct or avoid market failure, they advocated central coordination of the allocation of resources. The newly expanding subject of welfare economics also provided considerable rationale for government action for facing market failures. Thus, state emerged as the major agent of economic change to the first generation of development advisers in the wake of an unreliable price system, limited entrepreneurship, and the need for large structural adjustments to put developing countries on an even keel. They had the faith in the government in the spheres of promoting capital accumulation, utilizing surplus labour, undertaking policies for industrialization, relaxing foreign exchange constraint via import substitution, and coordinating the allocation of resources through programming and planning.

Government failure

The growing governmental interventions, on the heels of market failures, gave rise to grievous governance and state patronage so much so that during the 1990s, government failures allegedly got more prominence than market failures. Some of the failures are for example and according to the authors: (a) Over and under supply of public goods entailing higher budgetary costs and constraining growth, respectively; (b) Political leaders tend to maximize their likelihood of staying in office and at

the cost of resource uses under sound economic considerations. Thus, not surprisingly perhaps, allocation for scientific researches and extensions remained on the backburner while "political projects" attracted allocations to create an over supply; (c) Since government is a monopolist of legitimate coercive power and has no danger of bankruptcy, strong incentive prevails for socially unproductive pursuit of enhancing power and position of bureaucrats; and (d) Rent seeking activities run galore in a regime of licensing and regulations.

Which way to go?

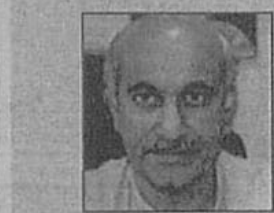
Yujiro and Yoshihisa argue that both the market and the state are indispensable for allocating resources. One needs to clearly identify the failures of the systems and eke out a thread of combination that works well in terms of efficiency and welfare. For developing countries it is especially important to recognize that the types and magnitudes of both market and government failures are different for different cultural heritages as well as for different stages of development. Thus Japan, Korea, and Taiwan jumped up in a system in which the area under government control is wider than in the populist model in Latin America. There is no doubt that developing countries are subject to severe market failures. But the reasons underlying such failures could invite more government failures than market failures. According to Yujiro and Yoshihisa: "With the recognition of this possibility, the choice of an optimum combination between the market and the state under given historical condition is most fundamental in the design of development."

Abdul Bayes is Professor of Economics at Jahangirnagar University.

Grey area



The culture of alliance demands, for starters, respect for the ally. This is more important than the importance of portfolios. There may be give and take in portfolios, but there is no give and take in respect: that has to be a permanent foundation. But respect is the one thing that the Congress does not have on offer, to either friend or foe. Foes can do little about it, but friends can.



M.J. AKBAR

WHOMEVER thought that the uses of adversity are sweet was never in Indian politics and must have been a Trappist monk of the more depressed sort. Indian politicians do not smile in adversity; they shrivel and turn suicidal. This is generic. Look anywhere, at nation or region, ideology or personality.

The Shiv Sena, once the roar of Maharashtra, now shrunk to a whimper by nepotism, has all the buoyancy of Napoleon's army after a winter vacation in Moscow, feeding on the carcass of horses on which it once rode to victory. The rise of the Shiv Sena was once considered an astonishing and equally definitive fact of contemporary politics. Its collapse is equally astonishing, and equally definitive. Its fate is proof that the politics which dominated the decades

between 1985 and 2005 is dead, and those who cannot rise above this past will wither in its aridity.

The Shiv Sena claims to be an ideological outfit. Its complete disarray makes a nonsense of such claims. Its success, it is now obvious, was built on more traditional pillars, of which anger against the establishment was paramount. Bal Thackeray's personal charisma helped, but the victories of Narayan Rane prove that it was not a dominant charisma, in the sense that Mrs Indira Gandhi's was. Leaders like Rane added significantly to the pool without getting anything like adequate credit. Bal Thackeray may have lost the game when he refused to become chief minister after the Sena-BJP alliance won Maharashtra. Thackeray is no Mahatma Gandhi or Jayaprakash Narayan. He was a politician who made promises. When the voter believed those promises, Thackeray backed out from personal responsibility and passed the buck to lieutenants with less than memorable names. A politician cannot live above politics. Politics is a buyer's market. A voter will not accept short change once he has made his bargain.

The BJP has been overtaken by an epidemic of sulks, and undertaken by black humour. If it doesn't watch out, it could hiccup itself to insignificance. The BJP doesn't need a new president, although it has bothered to find one. It needs, first, to hire Greg Chappell, along with a clutch of Australian physiotherapists, who would do good at multiple levels. Chappell has a basic doctrine: Discipline above all else. Discipline in adversity begins with physical discipline. L.K. Advani is the only senior BJP leader with any discipline, so naturally they removed him. Adversity has unique ways of reinforcing itself.

The just-concluded AICC session in Hyderabad was a lake of lively wavelets with just one patch of gloom. The saddest face in the country today is that of Dharam Singh, the short-lived Congress chief minister of Karnataka. The Congressman is the Brahmin of Indian politics. He believes that he rules by divine right, and occasional spells of misfortune constitute the arbitrary impact of Kaliyuga that might befall the best of the twice-born, and can be ameliorated by the requisite number of yagnas. Other castes, in this self-image, are welcome to share power, but as secondary or even subservient players. Now that the gods had restored the skewed balance of the world by restoring them to power in Delhi, the mood in Hyderabad was one of smug

satisfaction. This may be perfectly acceptable when the party is having a party, but does not work on the morning after, as Karnataka showed.

The culture of alliance demands, for starters, respect for the ally. This is more important than the importance of portfolios. There may be give and take in portfolios, but there is no give and take in respect: that has to be a permanent foundation. But respect is the one thing that the Congress does not have on offer, to either friend or foe. Foes can do little about it, but friends can. Dharam Singh is in Bangalore's departure lounge because he thought he could break an ally, Deve Gowda's party, from within and occupy space thus made freshly available. Lalu Yadav is in a political dispensary in Patna because the Congress first tripped him badly enough to ensure that his leg was broken, and then offered a crutch in the sure knowledge that he could never hobble to victory. Sharad Pawar is shrewder at protecting his interests, but surely he can see the Congress elbow hammering away at his ribs. He may not feel the pain now, or pretend not to, but he will later. These stretching exercises by the Congress, ratified by the "Only Congress" mood at Hyderabad, are logical, because the Congress is trying to reclaim space that was once its sole territory. However, it needs to be in power to expand its base at the expense of its allies. The loss in Karnataka is therefore a setback. Sour are the uses of adversity.

Assuming that the Trappist monk had not gone insane from prayer, guilt, self-imposed solitary confinement, silence and the awful grey cold of Europe, we need to consider why he thought the

uses of adversity could be sweet. He clearly meant that sorrow and affliction were good for the soul. When out of power you have the opportunity to ponder over mistakes, correct deviations, find a new path forward even as you rediscover the will to return to primary objectives like service to man (and, if you are a monk, obedience to God). The last person to discover such virtues (including obedience to God) in adversity was Mahatma Gandhi, and not all the time, one may add. But now, alas, adversity only tends to encourage perversity. No front is free from dissension, and no back free from a bite.

In such conditions, you can hardly blame political parties from standing still and hoping for the best. This is fatalism, perhaps, but other options seem to them to be fatal. This wait-and-see philosophy emanates out of the principle that no one wins an election but someone loses it. Normally -- unless, that is, you are Shiv Sena in Maharashtra or Congress in Bengal -- this works. The AGP is waiting in Assam and will probably win the next Assembly election. However, it is not foolproof. The Akalis are waiting in Punjab, and Captain Amarinder Singh might keep them waiting awhile. But the best that can be said about waiting is that it is brain-dead politics. The sharp politicians are those who can see adversity approaching and have the skill to pre-empt it. Witness Deve Gowda.

So what is the best strategy for life in adversity? Honestly, I don't know any that might be considered practical. However, I have just been reading about the worst possible one. The ultimate book about adversity is surely a history of the Black Death, as the plague that wiped out half of Europe in

the 14th century was known (The Great Mortality, by John Kelly). The plague started in Mongolia and reached, via the trade routes, the port of Caffa on the eastern edge of the Black Sea, controlled by the Genoese and rich with the wealth of silk from China, timber, and fur from Russia, slaves from Ukraine, diamonds from Gokonda and spice from Kerala and Ceylon. The overlords of the region were the Mongols, who had become Muslims by then in central Asia and south Russia. Tension between the Genoese and the Muslims sharpened into conflict and in 1343 Janibeg Khan drove the Italians to the point of surrender in the port. Just then the plague hit the Mongols. The Genoese went down on their knees to give thanks to the Almighty. They were premature. Janibeg Khan proved to be something of a germ-war strategist. He loaded infected corpses on to his catapults and flung the corpses into Caffa. The Genoese were decimated, and he ensured that both sides lost. That was how the Black Death entered Europe.

The image is drastic, and I certainly do not want to be taken too literally. But it seems to me that in the laissez faire mood currently prevalent in Indian politics, there is great danger of one side's corpses infecting the body of the host. This is easier when there is no anti-body like ideology to fight against infection. Does a politician who has been worse than Narendra Modi in his invective against minorities suddenly become a devotee of Mahatma Gandhi because he can win on a Congress platform?

I hope the answer is more optimistic than my pessimism.

MJ Akbar is Chief Editor of the Asian Age.

TO THE EDITOR TO THE EDITOR TO THE EDITOR TO THE EDITOR TO THE EDITOR

Letters will only be considered if they carry the writer's full name, address and telephone number (if any). The identity of the writers will be protected. Letters must be limited to 300 words. All letters will be subject to editing.

Population control in BD

The Daily Star has been covering many important social issues related to BD. Unfortunately, up until now, this paper has not widely covered one very important issue, which is population control in Bangladesh. Unless we do massive population control, I think our problems won't be solved. Enough is enough, 140 million is already too much to bear, an additional 20-30 million would break up all the social fabrics of our country. If we want to live in a peaceful way, we have to stop at this point. Otherwise, whatever industrialisation we do, we won't be able to create 1.5 million jobs every year. It is totally impossible. There will be Mong every year.

Educated class is a bit convinced now, while the lower class and rural people are not. I think every conscious man or woman should act as an advisor for illiterate people. It should be our duty. Many of the slum-dwelling boys would become criminals if they don't get education and proper family care. And you know it would be possible for the NGOs and the govt to arrange some sort of education if the number of child is limited to only one. We have to convince our nearby slum families to have two or less kids for our betterment, I mean for our safety. Otherwise, our kids will be the ultimate prey of hundreds of future Kala Jahangirs. Many rickshaw pullers and urban and rural poor marry here and there, and in this way they are increasing population, too. Would you

please touch this issue seriously on behalf of your newspaper?

The following points are relevant.

1. Fertility rate is 3 in BD, and it has been static for the last few years. It should be 2 to turn the BD population to a replacement level (2 kids per family). A massive awareness campaign is needed through mosque imams, school teachers, community leaders (union members, chairman, local MPs and ministers).
2. All political leaders, after their public speech, should show their 2 fingers for 2 kids and talk something on it.
3. A TV ad mentioning that after 10-15 years we will lose our 25% farming land for population growth could be breath-holding for many. We need to convince people that we cannot feed our

children when we are losing our farmland day by day due to over-population.

Mahbubur Rahman
Marshfield, USA

Our duties
Every child born in this country has the right to get education. If we are democratic, then we must see every human being equally, which also includes children. The state-run or private Bengali medium schools, located in Dhaka (or other cities) take tests to admit a child in Grade I, and make enormous amount of money selling forms. Is it not a duty of a school to teach children, which includes basic knowledge? To win in the battle among hundreds, parents send their children to coaching centres, which also costs them a lot of cash. If our

society wants to be fair, why these innocent children have to sit in such exams where four among five will get eliminated. The children who didn't get an option to learn in better environment, get admitted to costly English medium schools.

After getting admitted the shadow like problem doesn't leave them. Every day teachers give these children a bundle of homework. Those who do it perform better, but most of them get a label of being "average." Practice at home is needed, but to make things easier, we need to increase school hours, so that children can solve problems more in school than home.

"Failing" students must come to an end. These types of actions make a child believe that he doesn't have the ability to be competitive. What a student needs is help,

and teachers need to be patient.

Tahsin Hyder
Maple Leaf International School,
Dhaka

US intentions
Brig. SA Khan's suspicion of US intentions is not unfounded. Any killing patronised, planned and executed by the state is legitimate according to the US and there seems to be a plan to entangle Bangladesh as a partner in crime they will call it anti-terrorism. In 1979, the Mossad found and killed All Hassan Salameh (presumed at that time to be a likely successor to Arafat) under the very nose of CIA who apparently had warned Salameh of Mossad's intentions. One wonders as to who is doing what and to whom?

A.E.M.A. Harris
Deramore Drive West
York, SHS

Counter-terrorism bureau
Counter-terrorism bureau is certainly a questionable proposition, as noted by your Defence and Strategic Affairs Editor, on Thursday 26 January, 2006.

People in Bangladesh are in the dark on many matters and this too is one of many. Is it necessary to enlighten the people on this matter? Why? Usually this is not done, or if at all, after some discourse on this lapse by persons who may feel it their moral duty to make the ordinary people conscious of their environment. Even in this age of information with all the imaginable sophistication, peoples' access to any kind of information is extremely limited. When did Bangladesh seek the advice of the superpower

on how, when, where and what to do, to counter terrorism within the country? We don't know.

And by this set-up will our capabilities be so enhanced that we too will strike anyone any time, simply because we feel like doing so? This is the question before us. For the answer we need to search our soul and follow our inner feelings.

Farida Shaikh Enayet
One-mail

US and Pakistan
The US forced us to be with it when it needed our service. But the honeymoon is over. And now Washington can see many things in the right perspective!

Aftab Alam
Advocate (High Court) Swat,
Pakistan