INVITATION TO A DIALOGUE

Market economy should not be confused with perfect competition

Feisal Siddiqui

I must admit at the outset that I cannot resist engaging Prof Rehman Sobhan in a debate. While a tender 20 year-old undergraduate student of economics, I attended a talk by him at the London School of Economics at which I fared rather badly in trying to take on the legend. Fifteen years on, I am doggedly pursuing his contributions in the newspapers. I was itching to put pen to paper after the Oct 9 piece in Holiday entitled "An agenda to discuss" (why not just get on and discuss rather than discourse on the agenda for the discussion?) but managed to let it pass. In my fevered imagination, this lack of response on my part has emboldened Prof Sobhan to follow up with the longer piece of Oct 16, "The open market and its enemies", and a spate of other writings in The Daily Star (provocatively asking for a response), so that I can no longer relax.

In the "open market and its enemies," he starts off by stating that he decided to write the piece "not because I have become a recent convert to the virtues of the open market but ...." A brilliant use of the English language, which is certainly his strong suit, by which he could either be: a) a recent convert to the virtues of the open market but writing the article for other reasons, or b) not a recent convert to the virtues of the open market. It is brilliant for two reasons: 1) It keeps his followers and critics guessing. 2) It camouflages and eases his entry into a pro-market stance, leaving open the option of a quick retreat.

Of course I am assuming that the turn of phrase was not pure accidental genius. His next sentence once again betrays a British touch of circumlocution as he "proposes to argue" (why not just argue and be done with it?). Jokes aside, there were actually some points he makes that I wholeheartedly agree with, and I hope my present contribution should fulfil his intention of provoking debate. I agree with him that a large number of people are talking about the market economy without any idea of what it means for Bangladesh (or for any other country, for that matter). As a leading and highly influential economist of Bangladesh, Prof Sobhan himself has to shoulder some of the responsibility, for sins of both omission as well as commission.

Discussing the essential pre-conditions for an open or free market, he actually outlines the parametres of an ideal society. An ideal society is not a pre-requisite for a market economy, nor does a market economy in itself guarantees an ideal society. Perhaps he is confusing classical conceptions of perfect markets and perfect competition with the market economy. These are different in that the classical conception is a model, while the market economy is its quite imperfect manifestation. For example, China and Vietnam may have invested heavily in education, which may be considered a constituent part of the classical conception of perfect competition, but by no stretch of the imagination was this directed towards a market economy. Otherwise, the dictates of an open society, as envisaged by him, resemble rather closely the norms of a Western democracy and is therefore nothing new for most of us, though perhaps it may have been a revelation for the Professor and his followers.

This intrinsic confusion and Prof Sobhan's enduring ideological bias tend to surface again and again in his analysis. His criticism of the donors, for instance, seems to be a habit he just can't quit. I, for one, derive some sense of security from the fact that our aid dependency ensures the donors a strong voice in our economic management, which, if left entirely to our own people, would almost certainly be disastrous (as Prof Sobhan himself proved in 1972). Even with all the flaws of poor adaptation to local conditions and lousy implementation (and admittedly there are considerable problems), the donors' policy prescriptions may still be preferred to the local quackery.

His criticism of the Western countries is equally simplistic. Bangladesh has run up against quotas only on some garment items (admittedly the main categories) in only the US market. He appears to be completely oblivious to the fact that the US (and others) are also countries populated by human beings who may be expected to protect their own jobs and livelihoods.

The GOB itself as a major obstacle to the market economy is very accurately analysed by him. What the Professor conveniently fails to mention is that, as an insider with the first government of this country, he was party to the most devastating blitzkrieg on openness and accountability in this country, which successive governments are still struggling to recover from. Perhaps the pain of being an outsider in those days is being appreciated (albeit at a lower level) by him today, and hence his newfound respect for openness.

In identifying the "business sector" as being among the enemies of open markets, he has taken rhetorical posturing into uncharted territory. To the best of my knowledge, the entire business community is welcoming the opening up of the economy as long as it is sensibly phased in. In casually referring to private banks as poor creditors, his ideological bias against the private sector is exposed again. If being prudent, avoiding bad loans, and trying to maximise returns for shareholders is not a sound approach for banks, it is not clear what is.

Private banks are not crying about defaulters, while there are examples of successful industrial financing by them (Islami Bank, for instance, has a substantial share of its loan portfolio in the garment industry and is thriving today despite initial problems). The reasons for the apparent problems of "big business" as he puts it, can be traced back to the nationalisation programme and its lingering after shocks on the economy, even a decade after the denationalisation programme's commencement. The sooner the GOB can disengage completely from the business arena (including the financial institutions), the better in terms of establishing a more efficient economy.

The conclusion reached by me is thus a little different than the one reached by Sobhan. The bureaucracy as an institutional force is no doubt the single most important enemy of openness, whether in the market place or elsewhere, and this is almost by the very nature of the system the bureaucracy operates within, from its origins in the British colonial period. Civil service overhaul and reform is thus critical to the eventual success of the economy, be it a market-oriented or a centrally planned one.

The other group, operating at a strictly individual level as opinion shapers in society, are the large number of persons who are not clear about the fundamentals of the market economy, including the Professor himself (as his essay confirms). In fact, it is possible, through direct institutional reform, to make the bureaucracy more responsive almost overnight but tackling the problem of making a large body of individuals across society more aware of the dimensions of a market economy in Bangladesh is a much more difficult and open-ended proposition. Prof Sobhan, a very important opinion shaper himself, unfortunately continues to contribute to this confusion. His recent article in this paper, spread over two days, is entitled "Policy agenda designed by donors fail to find cure". The truth of the matter is that there is nothing wrong with the "policy agenda", which is correctly attributed to the donors, but there is everything wrong with its adaptation to the Bangladesh context and its implementation, which is our administration's business. I wish he would make the effort to establish these distinctions as a professional economist, instead of going for a populist approach, which does not result in anything constructive. For example, he compares the economy's growth rates of 1987-92 with the post- liberation figures. I do not believe that his understanding of the use of economic statistics is so week that he is unaware of the distortions in the immediate post-liberation period. I do not find this approach acceptable from a person who considers himself a senior and responsible citizen of the country, let alone a professional economist, just because he was directly associated with that period in our nation's economic history.

But he is undoubtedly correct in asserting that the economy is sick. Nobody, including the donors, is disputing that fact. The donors and the GOB are however trapped into a "wishful thinking" syndrome and are heard, from time to time, to make predictions of improvement "just around the corner". The fact is that aggregate demand management is lacking, the output from existing capacity is not being closely monitored to achieve maximisation, there is no effort to identify why private investment — both domestic and foreign — is not taking place, the major financiers are in confusion and disarray and not lending, and most importantly, the administration itself appears to be almost schizophrenic in its role as leader of the economy. In short, the delivery mechanism of the broader policy is almost completely paralysed, but this does not mean the policy itself, which is almost universally accepted now, is invalidated. Our job as Bangladeshis is to accept that we alone are responsible for this paralysis and the general malaise afflicting our country, and get on with the job instead of armchair philosophising and trying to blame someone else.

I urge Prof Sobhan to actually come out and recommend an action plan instead of discoursing endlessly on the need for one. As it is, most of his followers are confused as to whether he is now a champion of the individual-oriented market economy or a centrally monopolised economy. After all, by taking the examples of the Japanese model, Korea and Taiwan, he is talking about all out government support for private business, big or small. I am sure the donors have got nothing against the GOB going all out to facilitate and support private business growth in almost a partnership sense; they will probably be happy if the GOB just achieves neutrality in the sense of not being an obstacle.

The GOB as partner can be successful if the GOB is sophisticated, but can have disastrous consequences otherwise. So at the initial stage it is less risky if the GOB merely maintains a neutral but friendly distance from business. This is in fact what Prof Sobhan himself has been arguing in The Daily Star recently, with "The pubic and private sectors: two sides of same coin". While it is indisputable that the public sector units suffer from excessive centralisation and government control (as does the private sector too, though obviously to a lesser extent), this is by no means the whole story, as he would have us believe.

The problems with any public sector organisation anywhere in the world originate from a single universal truth: everybody's property is nobody's property. The grand social experiment of transforming man or woman from an essentially self-centred being to a selfless non-materialistic spirit dedicated to the larger community has failed — the new socialist man or woman has not evolved. The ways and wherefores of this great debate is beyond the scope of this article; suffice it to say that the failure of the socially owned centrally planned economy is universally accepted as a starting point for current discussions on economic issues, leading inevitably to some variant of market based economic principles.

In short, if public sector cannot be made to work even in countries like the UK, it certainly cannot work in Bangladesh, whatever exhortations Prof Sobhan may make to the contrary. Nineteen-ninety's thinking on this matter, widely accepted now, is truly simple and straightforward: governments shall get out of any function which can be handled through competitive market mechanisms. For example, many organisations and individuals in Dhaka today obtain security services from a company named SECUREX instead of maintaining their own in-house security department. The analogy would be for a government to contract out for the nation's defence services instead of maintaining a standing armed forces. While this is an extreme illustration, there are cases of a country's contracting out to private firms for customs services, in place of the usual government customs department. In the case of Bangladesh, it would certainly be interesting to think about abolishing the bureaucracy running the ministries, and contracting their work out to private firms on a competitive basis. I am sure some of the secretaries could do a great job on a private basis!

The public-vs-private sector debate is therefore stone age polemics. The fact is that there is the government and there are individuals across society striving to make the most of their lives. The government's role is to help individual citizens in this struggle, or, at worst, stay out of their way as much as possible. The so-called "private sector" consists of everyone outside the institution of government, even government servants in their private capacity.

The question of the government remaining in activities which are easily handled otherwise cannot therefore arise in any form, and it is high time Prof Sobhan came to grips with this reality. To argue that the government can improve performance of the PSUs by allowing greater autonomy flexibility and insisting on commercial performance, accountability, and responsiveness to market forces is to suggest that they emulate private enterprises; why not simply go for the real thing? The Indian Finance Minister Manmohan Singh has been intellectually honest by repudiating his past positions and committing himself completely to a programme of drastic market oriented reforms. He has stood by his bold and pragmatic actions without reference to donor conditionalities. I feel ashamed that we Bangladeshis are falling behind in every respect, with no sense of direction and a tendency to blame others for our ills. I appeal to Prof Sobhan and all leaders of society to objectively and honestly reassess their current input, so that we may regain our intellectual clarity and self-respect as a nation.

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BRIEFS

Brazil's economic plans delayed

BRASILIA, Nov 30: Acting President Itamar Franco will delay announcing his economic plans until suspended President Fernando Collor de Mellor is impeached, newspapers reported. Franco made the decision because he believes his government is only an interim one until Collor is impeached on corruption charges, major newspapers said. The Senate is scheduled to vote on impeachment December 18, reports Reuter.

New rule for UAE exchange houses

ABU DHABI, Nov 30: United Arab Emirates (UAE) authorities on Sunday asked exchange houses to double their capital amid increased supervision of the monetary sector following a series of bank crises. The UAE central bank said it had told exchange houses engaged only in foreign currency trade to double their paid-up capital to one million dirham (272,000 dollar) and those engaged in additional business to double their capital to two million dirham (544,000 dollar), reports AFP.

EC asked to give up protectionism

PANAMA CITY, Nov 30: The Union of Banana Exporting Countries Sunday urged the European Community to abandon "stale protectionist policies" in favour of greater access to the community's market for non-EC fruit. The European Community is slated to impose higher tariffs next year on bananas grown in Latin America in order to safeguard an EC market share for bananas grown in outlying EC territories reports AFP.

BOJ intervenes in money market

TOKYO, Nov 30: The Bank of Japan (BOJ) injected a net 1.27 trillion yen into the money market by offering to buy 900 billion yen in bills due December 7 and 900 billion yen in bills due December 8 and also recalling 530 billion yen loans from banks, money traders said. The central bank later confirmed conducting the operation. The fund injection was made to replenish the net projected 1.29 trillion yen market funds shortfall Monday, reports Reuter.

Gorbachev differs on Yeltsin's privatisation process

BUENOS AIRES, Nov 30: Russian President Boris Yeltsin is going too fast in his drive to privatise Russia's state-owned companies, former Soviet President Mikhail Gorbachev said, reports Reuter.

Speaking through an interpreter at a news conference at the start of a five-day visit, Gorbachev chided Yeltsin for trying to privatise "everything in one year."

"Why should a country like ours, with 200 million people and centuries of history, finish its privatisations in one year?" he asked

Gorbachev said Yeltsin, by trying to undo in a single year the legacy of decades of communism, was causing hardship to the Russian people with his economic sock treatment.

"I'm against the timing and methods of the current administration's reforms because, once again, certain policies are being forced on the people," he said. "This is a disrespectful way to proceed with regard to our people."

He predicted that Russians will continue searching for a sustainable economic formula, which would probably mix free market and socialist policies.

Another report from Moscow adds: Huge credits given to struggling enterprises will help push up Russia's budget deficit in 1992 to around 1.5 trillion rouble (3.4 billion dollar), deputy central bank chairman Alexander Khandruyev told parliament.

Interfax news agency also quoted him as saying the bank would pursue a much tougher credit policy next year.

The reformist Russian government wants to slash subsidies to inefficient firms but has clashed with central bank chairman Viktor Gerashchenko, who says enterprises must be kept afloat for the time being to avoid a social explosion.

Money supply has grown 30 per cent a month since July, fuelled by the credits to industry, but there are growing signs the bank is changing its mind.

One of its top priorities would be "to strictly curtail the rates of paper money growth by every means possible," Khandruyev told a hearing on financial stabilisation measures.

He said most of the bank's credits had been granted under favourable conditions, which meant enterprises were paying just over half of the envisaged 80 per cent annual interest rate.

Civic union

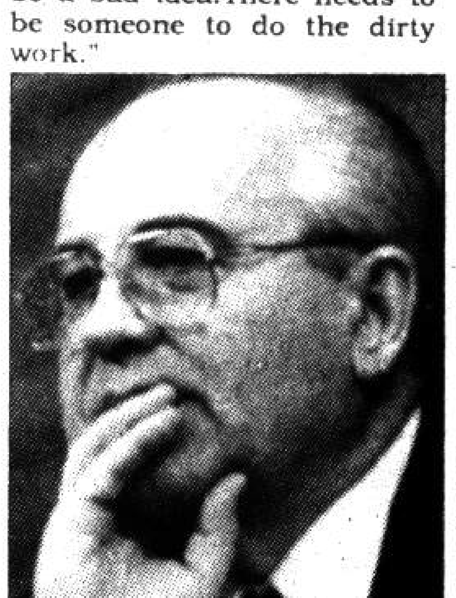
Another report adds from New York: The head of Russia's powerful civic union coalition says he doesn't want to hinder President Boris Yeltsin's efforts to privatise the economy, but he does want the approach to be "reasonable."

"I don't want us to commit any stupidities," Arkady Volsky told Newsweek magazine in an interview in Moscow. Excerpts were sent to news media on Sunday in advance of publication today (Monday).

Volksy, whose coalition is believed to control 40 per cent of the conservative 1,000-member Congress of People's Deputies that opens tomorrow, said he had no political ambitions and was no threat to Yeltsin.

But while he promised the civic union would support acting Prime Minister Yegor Gaidar during the session of the country's supreme legislature, Volsky said the reformist premier "doesn't have the ability to rule.

"If he had a papa looking over his shoulder, it wouldn't be a bad idea.There needs to be someone to do the dirty work."



Referring to a decree put on Yeltsin's desk ordering all enterprises to prepare their books for privatisation by October 1, Volsky said "the whole country was laughing at it. Only one per cent of the enterprises met the deadline.

"I don't want the prestige of the President and the government to be lost completely, because this country will end up in chaos as a result. I said, folks, don't be stupid. Don't specify any time frame, that's communist style...".

Rice is a banned import item for Japan and the Japanese government have no immediate plans to lift the ban. —Star TV photo

Jordan proposes $2b budget for 1993

AMMAN, Nov 30: Jordan, a second year into economic reforms approved by the International Monetary Fund, has proposed a 1993 budget of 1.38 billion dinar (two billion dollar), government sources said, reports Reuter.

The draft budget, endorsed by the government late on Saturday, envisages a deficit of 48 million dinar (70 million dollar), compared to last year's 107 million (160 million dollar according to 1992 exchange rates), the sources said.

The budget is to be sent to parliament next month for approval.

The draft budget expects the current revenue of 1.225 billion dinar (1.775 billion dollar) to exceed the estimated current spending of 987 million dinar (1.43 billion dollar) by 237 million dinar (334 million dollar), the sources said.

The surplus will be used to finance 40 per cent of the expected capital expenditure of 340 million dinar (492 million dollar) in 1993, compared to last year's 338 million(507 million dollar) according to 1992 exchange rates), they said.

Beijing city to lift subsidies on eggs, meat, vegetables

BEIJING, Nov 30: The Beijing city government will lift price controls Tuesday on eggs, vegetables and meat to save the city one billion yuan (175 million dollar) in annual subsidies, an official report said, reports AP.

The move is part of efforts nationwide to increase the role of market forces and phase out government subsidies that have dried up state funds and contributed to a huge budget deficit, the state-run Xinhua News Agency said Monday.

Xinhua also said the city government had decided to give every wage earner and college student 12 yuan (two dollar) to help them adjust to higher prices for the products.

The lifting of price controls on the goods Tuesday will end the city's rationing and subsidy system, the report said.

Prices for many consumer products in China had stayed fixed since the 1960s, leading to artificially low prices. Only recently did the government eliminate subsidies for sugar, coal, milk, toothpaste and other items.

Japan's ban on rice import to continue

TOKYO, Nov 30: Japan on Monday angrily denied a report in a major newspaper that it had decided to accept a plan by the General Agreement on Tariffs and Trade (GATT) that would end its ban on rice imports, reports Reuter.

The Daily Asahi Shimbun said on Monday that the government had decided to end the 47-year ban and would instead seek high tariffs on rice imports and a long transition to reduce them.

But an Agriculture Ministry official in charge of GATT told Reuters the report was unfounded. "It is totally groundless. Japan will continue to appeal for rice to be exempt from a GATT plan to turn all non-tariff farm trade barriers into tariffs."

AIDS threatens Third World's development

LONDON, Nov 30: The far-reaching economic costs of AIDS threaten the development prospects of many nations, according to a report published on Monday, reports Reuter.

"AIDS is now not just a baffling disease of the immune system but a development issue, which both feeds off and contributes to poverty," it says.

The report, "the hidden cost of AIDS — the challenge of HIV to development," is by the London-based Panos Institute, a leading authority on the impact of Acquired Immune Deficiency Syndrome on developing countries.

Epidemics usually kill mainly the weakest — the very young and very old. But AIDS hits the most economically productive sector of the population, those from 20 to 45, the report says.

Some 80 per cent of AIDS cases identified today are in developing countries and the worst hit are already experiencing loss of output from disability, premature death and the time taken off work to care for others.

These countries also face a possible rise in wage costs and changes infarming practices as a result of labour shortages along with damaged tourist industries.

So while the direct costs for the treatment of AIDS worldwide have been estimated at 2.6 to 3.5 billion dollar a year — of which the developed world accounts for 84 per cent — the indirect economic costs will be much greater.

The report cited a study of the Uganda railway organisation by the Danish International Development Agency. It estimated that 10 per cent of the corporation's 5,600 employees may have died of AIDS in recent years and said the disease was one of the causes of high labour turnover, about 15 per cent per year.

A report on the Zambian copper-mining industry, which earns 75 per cent of the country's foreign exchange, says that "the danger is that skilled workers, supervisors and managers will die of AIDS (paster) than replacements can be trained."

The Panos study says it is estimated that worldwide, up to 12 million adults are infected with HIV, the virus that causes AIDS. This represents one in 250 of the world's adult population. A million children had contracted HIV by early 1992.

According to the World Health Organisation AIDS now kills about 100,000 people a year and this is expected to rise to 400,000 by the end of the century.

India firm to restore macro-economic balance

NEW DELHI, Nov 30: The Finance Minister, Dr Manmohan Singh, Monday said that Indian government would persist in the direction of cutting subsidies, waste and inefficiency in public enterprises and controlling expenditure in order to restore the broad macro-economic balance of the economy in the medium-term, reports PTI.

Delivering a lecture on "Taking Stock of the Eighteen Months of Reforms" here, organised jointly by the Geneva-based World Economic Forum and the Confederation of Indian Industry (CTI), the Finance Minister said that in three years time, the government would reduce the budgetary deficit of both the centre and the states taken together to five per cent of the gross domestic product (GDP).

Dr Singh recapitulated the economic reform process set in motion over the past one and a half year and said as part of the process of fiscal restructuring, fiscal imbalance was being reduced so that more resources could be deployed for productive purposes.

He said the objective was to move towards a broad macro-economic framework where inflation would be less than five per cent. He said the annual inflation rate which was hovering over. 17 per cent in September-October last year has come down to less than nine per cent and by the end of the fiscal year it would be controlled at eight per cent.