

Laws for Financial Institutions

The decision of the government to frame a new law to be called the Financial Institution Act 1993, will fill a vacuum in the legislation governing conduct of business by non-bank financial institutions in the country.

In fact, such a legislation had long been overdue. Provisions of the existing laws regarding the business of non-bank financial institutions are rather vague and ambivalent.

It is reported that the new law will contain provisions that would allow for proper management and smooth running of such financial institutions and, at the same time, set up appropriate regulatory mechanism to ensure discipline in their operation.

An appropriate regulatory framework to ensure discipline and accountability in non-bank financial institutions is essential to safeguard the interests of the public who deal with them.

Deregulation does not mean absence of regulation. A healthy growth of financial institutions can contribute significantly to promote investment, especially among new entrepreneurs with limited or no access to bank financing.

Non-bank financial institutions take different forms such as leasing companies, mutual funds, investment companies, pension funds, finance companies — to name a few. Individuals, smaller and less well-established enterprises, find these an attractive source of finance.

Give NAM a Chance

Sources close to President Bill Clinton at the G-7 meeting in Tokyo went out of their way to emphasise that the US leader had met President Suharto in the Japanese capital as the head of state of Indonesia rather than as the current chairperson of the Non-Aligned Movement (NAM).

That the United States has been wary of NAM is hinted by some pundits from Washington. Surprisingly enough, these hints carried some bad echoes of the late fifties when John Foster Dulles treated NAM as one of the worst adversaries of the United States.

True, over the decades, NAM has had its ups and downs, moving from Cuban radicalism to lethargic moderation of Zimbabwe. Its performance has fallen short of our expectations, mainly on economic issues and, more recently, on the Bosnia conflict.

In recognising the changing realities in different parts of the world, the Clinton administration should discard the inhibition about NAM and accept it as a partner in negotiations on North-South issues, not necessarily as an ally.

In an article published in The Daily Star on April 23, the writer Vincent G. Jaydee has claimed that the concept of "Share Economy" (we will use SE for short) can be applied in the public sector industries, in the labour surplus developing economies and that it can "save the country from the verge of economic collapse".

First, we have to understand what SE is all about. Martin Weitzman, formerly a professor of economics at MIT and now at Harvard University, wrote a book on SE in 1984 which was preceded by two of his theoretical articles published a little earlier in The Economic Journal in which he had developed the analytical foundations of his theory.

Getting back to the basics of SE, think of one of the large private manufacturing corporations (Martin Weitzman took the example of one of the Fortune 500 major corporations in the United States), let us say, "X".

It wants to maximize its profits, it follows the simple rule of producing output upto a point where the marginal cost of one extra unit of output equals the marginal revenue obtained by selling that extra output.

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Is "Share Economy" a New Concept toward Economic Emancipation?

by Kabir U Ahmad

which, if all the big corporations followed suit, would push the economy towards full employment, the Wage System, on the other hand, will not have any such tendency because it will not have any excess demand for labour.

To understand this, we have to get back to the properties of the Shortrun equilibrium in the labour market. Consider the equilibrium of the corporation "X" in the neo-classical Wage System as pointed out above.

The basic propositions of Professor Weitzman's Share Economy that in his system (a) firms will always have excess demand for labour in the short run, and (b) a basic wage plus job security, regular bonuses, and retirement, medical and other benefits can be sustained until the economy reaches longrun equilibrium without the help of macro monetary and fiscal policies seem to be of very limited value.

rule in the product market extends easily, according to neo-classical economics, to the rule of wage payment and hiring of workers in the labour market. Corporation "X" will pay the last worker it has employed to produce the equilibrium output just the amount that the product of its last worker has contributed to the corporation's total revenue, no more and no less.

However, a few points should be noted here. First of all, if the corporation has found out that it needed only 100 workers to produce its equilibrium level of output and that the 100th worker's one day's output fetched only Tk 200, then this Tk 200 will not only be the daily wage of the 100th worker, but also the daily wage of each of the other 99 workers.

vate corporations followed this principle of profit maximisation, then they would all employ workers upto a point dictated by this principle and no more.

The next point that should be noted is that at the point of profit maximising output, both the average revenue (for the price) and the average cost of the product are higher than the marginal cost of the same product.

Turn now to Professor Weitzman's Share Economy. Suppose that the management of corporation "X" is able to negotiate, after a hard bargain, a wage contract with its trade union stating that instead of profit maximising wage it will give them a fixed share, say, two third or seven tenth or whatever it is, of the average

equilibrium wage rate of Tk 200/- per person to something less, let us say, Tk 190/- per day. That means, the former total wage fund of Tk 20,000/- (100 workers multiplied by Tk 200/- each) is now going to be distributed among 105.3 workers (Tk 20,000/- divided by Tk 190). Therefore, this extra employment of 5.3 workers is at the cost of Tk 10/- wage cut from all the 100 workers that were employed before.

revenue and that it will keep for itself another one-third or three-tenth respectively of the average revenue to cover not only the capital, raw material and management costs etc, but also some profits for itself. Even if this bargain is struck at the old neo-classical shortrun equilibrium point, the management's share will include an element of profit the existence of which will induce the management to produce more output and hire more labour.

The second point to note is that there also has to be some incentive for workers for accepting the wage bargain mentioned above. This is possible if the management of corporation "X" offers the workers some attractive terms such as regular bonuses, long-term job security, medical and retirement benefits etc like the package that the Japanese corporations offer to their workers which is what Professor Weitzman has tried to build into his model.

Note a few points about this Share System. First of all, in order to create incentive for the employer to employ extra labour beyond the neo-classical equilibrium point, the management of corporation "X" had to be assured of extra profit. This can come about by reducing through bargaining the former

conditions. "X" cannot raise prices and Professor Weitzman did not assume it either. What he did assume however was a monopolistically competitive market in which a greater sale has to be induced by lowering prices. But there is a limit upto which this can be done. What is far worse in this case is that under monopolistically competitive conditions when a firm reaches equilibrium it is lumpy with excess capacity which is exactly opposite to Professor Weitzman's fundamental proposition: that every firm will have excess demand for labour at equilibrium.

Professor Weitzman has stated in his book that "... Their ability to stabilize employment

and income in the face of recession has been remarkable—especially for an economy so vulnerable dependent on foreign trade. Japan weathered the contractionary storms of 1954, 1957-58, 1962, 1965, 1971, 1974-75, 1981-83, with relatively little change in registered unemployment. No other capitalist economy can boast that kind of record, and the pre-war Japanese economy could not either."

Dr Kabir U Ahmad is Longterm Adviser, Export Development Project (USAID/World Bank)

Finally, one is forced to conclude that the basic propositions of Professor Weitzman's Share Economy (that in his system (a) firms will always have excess demand for labour in the short run, and (b) a basic wage plus job security, regular bonuses, and retirement, medical and other benefits can be sustained until the economy reaches longrun equilibrium without the help of macro monetary and fiscal policies seem to be of very limited value.

Now, in the light of above analyses and conclusions on Share Economy, let us examine the claims: Can the model of SE be applied in the public sector industries? One feels very sceptical because most of these industries are already over-manned, inefficient, and losing concerns. Harsh economic calculus has rarely been applied in these industries. Further, some of these industries were supposed to promote social welfare and establish government control over the private profit-seeking industries. All in all, profit making was not a cardinal principle of these industries and hence the question of its sharing with workers is irrelevant.

Can SE "save the country from the verge of economic collapse"? Certainly not. When applied in conjunction with good set of macroeconomic policies, it can help the reduction of unemployment to some extent but there is no guarantee that the entire surplus labour can be productively employed. For this there is the vital need for direct intervention on the supply side for controlling population growth as well as on the demand side for creating productive employments even by non-profit enterprises with the principle of covering only longrun total costs after allowing the Wage System, Share System, and even Labour-Managed System in the market.

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THE lives of over a billion people in developing countries around the world are at risk drinking unsafe water.

Even this unclean water is getting scarcer by the minute. Majority of diseases in developing countries affecting close to 900 million rural residents, can be traced to unsafe and polluted water. In fact, some 30 per cent of all deaths in Asia are attributed to infections arising from the use of such water, according to statistics from the World Health Organisation (WHO).

The United Nations early on recognised this grim scenario. It declared the period 1981 to 1990 as the International Drinking Water Supply and Sanitation Decade. Its basic goal was to provide water and sanitation to hundreds of millions of rural Third World residents. The move was a definite recognition by the world body of the makings of a world crisis, a potential international disaster that could make "the oil crisis of the 70s look like a picnic."

Roger Berthelot, a consultant of the United Nations Development Programme (UNDP), said that water scarcity may even cause future wars. "There will be no peace in the world unless we are prepared to insure it now by tackling the

problems of water, which in some cases are catastrophic," Mr Berthelot said.

He said galloping population increases exacerbate the water problem in poor countries where traditional agricultural techniques require more water than modern ones.

Mr Berthelot said virulent disputes are simmering throughout Africa where about 140 million people are dying of starvation mainly caused by drought. He cited the drying up of the Senegal River in West Africa, which irrigates Senegal, Mauritania and Mali, as a devastating example.

In certain villages of these countries, he said, 40 per cent of the men have left, becoming what demographers call "environmental refugees."

"Even in an average season, traditional crops hardly cover the farmers' own needs," said Bakary Outtara, coordinator of an organisation set up to develop the Senegal river basin.

Mr Berthelot also cited the Nile River basin, which supports one of the world's poorest regions, with a population of 240 million. Because of the threat of water shortage, there

Future Wars over Water

Henrylito D. Tacio writes from Manila

'There will be no peace in the world unless we are prepared to insure it now by tackling the problems of water'

we moves to seek ways at developing water sources. But so far, conflicting interests have thwarted progress, according to Mr Berthelot.

In the Philippines, clean water is also becoming increasingly precious due to the need to support the demands of a growing population. In fact, 2.2 million Filipino households still draw their water needs from unsafe sources, reports the National Statistics Office (NSO).

NSO officials say the high incidence of water-borne diseases in the country like diarrhoea and typhoid, arises particularly from unsafe water sources. These sources include rivers, streams, creeks, springs and collected rainwater.

The Philippines also faces a major water shortage within the next two decades, says the Local Water Utilities Administration (LWUA) as indicated by steady 30 to 50 per cent drops in the levels of the

country's water sources over the past 20 years. The rate of water level drop in the 1970s was a mere 0.2 metres. By the 1980s, the rate has accelerated to an average drop of one metre per year.

Filipino environmentalists warn that water as a precious commodity is becoming scarcer through environmental influences such as soil erosion, desertification and falling ground water levels.

The "man-made" cause of water lack, they say, is deforestation, brought about principally by indiscriminate logging. WHO officials said there are three main constraints to safe water supply. They are: insufficient funding and cost recovery, lack of trained personnel to operate and maintain water systems and the lack of appropriate institutions.

Water programmes must be accelerated if the number of those unserved with clean water

is to be considerably reduced, WHO officials emphasised. The WHO agency has identified several approaches: the application of low-cost technology, increased exploitation of the potential for community involvement, the improvement of operations and maintenance, improved management and improved finances.

"While there is no magic remedy to the problem, more efficient and effective use of funds and manpower resources available may provide incentive for increased investments and increased hopes for provision for safe water," WHO officials said.

They added that there must not only be adequate water supply everywhere but such water must be safe. It said that health cannot be achieved by merely supplying sufficient quantities of water. "The quality of the liquid must be kept under surveillance to ensure that at least minimum health safety standards are met," they explained.

Water covers about three-quarters of the earth's surface with a total volume of 1,400 million cubic kilometres. Only 3

per cent is fresh water, of which two-thirds is frozen in the polar regions. This leaves only less than 1 per cent, or 14 million cubic kilometres, as fresh liquid water.

While water is regularly replenished in the global context, nature's way of distributing it is far from equitable. Many land areas receive little rain and have few rivers or groundwater resources while other places get a generous supply, or are disastrously oversupplied, causing floods.

Water which reaches the earth's surface may dissolve minerals and organic substances as it flows through or over the ground that could either be beneficial or harmful.

In fact, more impurities from harmful chemicals and biological wastes find their way into surface and sub-surface water through human and industrial pollution.

Water contaminated with such wastes can transmit serious diseases such as cholera, typhoid and paratyphoid fevers, amoebiasis, bacillary dysentery, infectious hepatitis, etc. causing epidemics and heavy death tolls.

Water is thus transformed from an essential ingredient for life into one of life's greatest threats.

—Depthnews Asia

To the Editor...

Letters for publication in these columns should be addressed to the Editor and legibly written or typed with double space. For reasons of space, short letters are preferred, and all are subject to editing and cuts. Pseudonyms are accepted. However, all communications must bear the writer's real name, signature and address.

Poverty

Sir, In a recent editorial of your paper, the term 'elimination' of poverty was used, instead of the much term, 'alleviation'.

The Oxford English dictionary defines 'alleviation', as reduction (such as reduction of pain, etc.). Why do we use the term 'alleviation' instead of 'elimination'?

May be that at the back of their minds our leaders and planners have the feeling, that we may gradually reach the point of elimination through the incremental decrease of poverty. If there is a ten per cent reduction of poverty each year, we can only reach the point of elimination of poverty after a period of ten years, and this could be our best hope.

When we are declaring all the time, that there will be health for all by the year 2000 AD and, similarly, we have declared that there will be a 100% literacy by the end of the century, does it not indicate that the pre-requisite of these two programmes are dependent and interwoven with the poverty situation itself?

We have several top economists of world stature, who can plan and provide the necessary strategy. A national consensus, and a total political commitment, is our first requirement. If this is achieved, other requirements will naturally fall in line. The goal that we have to achieve, would require many hardships and sacrifices, but the much needed objective can be attained with total political commitment, tra-

nsparency and accountability at all stages.

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Nirmul Committee

Sir, The national coordination committee for the realization (?) of the spirit of the liberation war and the elimination of the killers and collaborators of 1971, is often referred to in our national dailies as Nirmul Committee signifying that the committee is for uprooting something. In accordance with its full name, the organization requires to eliminate the killers and collaborators of 1971. Since the spirit of the liberation war is only partially existent in the independent Bangladesh, we all are to try our level best to restore and realize that spirit.

What is that spirit? The spirit is that we ourselves do have the ability to build our motherland; that ours should be a democratic government; that all of the countrymen are a unified whole, there is no discrimination as regard religion, caste or creed; that whatever economic

development the state can achieve would be more or less uniformly distributed to every citizen and justice would prevail everywhere and so on and so forth.

The first spirit is completely non-existent in the country. Now we think that we are unable even to feed ourselves, if the foreign aid is partially cut off; the second one, a democratic government is again in its infancy; the third one is ever-existent, although a former hypocrite government declares Islam as the state religion and the declaration is still valid majority of our people are non-communal and secular from the core of their hearts. The uniform distribution of wealth and social justice is wanting yet, for which your esteemed daily also wrote an editorial captioned "An Unjust Society". Thus it is clear that the main spirit of the Liberation War — the confidence in our inborn ability to develop ourselves — is lacking now.

If the coordination committee strives to restore that spirit, the task will be laudable indeed.

But what about elimination? Although the government judiciary of most of the countries kept provisions for elimination of some criminals, none of the literate or social workers of modern times, think of eliminating people. Psychologists would better suggest gradual elimination of crimes, not of criminals!

Then I wonder how our literate intellectuals, having high academic qualifications speak loudly of eliminating people outright! Trying to uproot a group of people makes the nation divided into groups. The various groups then will try to kill each other.

Therefore, with my little knowledge and humble observations, I would like to ask the coordination committee to abandon the term 'Elimination' from its name. The press is urged through these columns to use the term 'coordination committee' or 'the spirit committee' (that its members like to have), instead of Nirmul Committee. About the trial of Golam Azam, since his anti-liberation campaign and misdeeds are well-documented, the mem-

bers of the said committee should better file specific cases against him under the existing laws of the land.

Md Abdur Sattar Molla SME, IER, DU

The Charity-case Syndrome

Sir, Thanks to Shafr Rahman for his enlightened views published under the above caption in the opinion column of your esteemed daily on July 3.

The abuse of sex may create some chemical reaction and lead to many dreadful diseases like syphilis, leprosy, gonorrhoea and AIDS etc. Side by side with all precautionary and preventive measures to combat the diseases we must also try to protect and safeguard our morality and so a pious existence is imperative.

We would request our medical experts and physicians to kindly enlighten us on the matter.

OH Kabir Dhaka-1203