Bangladeshi Politics, Where Truth is Always Stranger than Fiction

REFLECTIONS

by Dr Omar Rahman

SALEEM dropped in to see me the other day. 'You look unusually cheerful', I said with a smile. Saleem is a writer, and his prevailing mood is one of gloom. He is still waiting to write the great Bangladeshi novel.

'Yes things are going well, even though I say so myself. The creative juices are flowing. The time and place are right,' said Saleem somewhat cryptically. Oblique references are part and parcel of Saleem's image as a Bangladeshi intellectual.

I hazarded a guess 'the Novel! you've started the Novel'.

'How did you guess?' said Saleem obviously pleasantly surprised. Considering the fact, that 90 per cent of Saleem's conversation is dominated by this unwritten masterpiece, I suppose I was on safe ground. However friendship does require a certain capacity to be surprised at the completely predictable, and Saleem so likes to be mysterious and unpredictable, the "volatility of the artist", he calls it.

'Tell me all, what's the theme, who are the main characters', I said excitedly. This was a major achievement, a breakthrough of monumental proportions. I had spent innumerable afternoons listening to various trial balloons of plots and titles floated by Saleem, giving him advice, all of which he would disdainfully disregard, so I was glad that the process had actually progressed.

'Well, I have the beginnings of a theme and a possible title. It has to do with the duality of chaos, and order, of politics and games, of the real and the unreal, the surreal and the concrete,' said Saleem with a rush. I didn't understand a word, but being a lowly non-artiste in the presence of a potential creative genius, I suppose that's not too surprising.

I said tentatively, 'it sounds great, but as a member of your reading audience, could you elaborate on what it's about? At least, tell me the title.'

'The title is "*Politics in the time of cricket*". I am following in the footsteps of the great Gabriel Garcia Marquez. My idea is to weave a modern day Bangladeshi political fable, one in which I juxtapose the order and civility of Cricket with the chaos and uncivil behaviour of the current political situation.'

'Tell me more, it sounds intriguing', said I.

Saleem pleased with such a receptive audience carried on. 'I want to portray the rich fantasy life of Bangladeshi politicians in which they fervently believe that they are actually concerned with the interests of the common people. I want to capture in words the surreal nature of politics in Bangladesh where TRUTH IS ALWAYS STRANGER THAN FICTION. Where else except this beloved land of ours would there be a *hartal* to protest against *hartals*?'

'How are you going to bring in Cricket into all of this'? I said.

Saleem warming to this cue from me said, 'Well! Cricket you see is the perfect metaphor for what Bangladeshi politics is NOT like. Cricket is civil, and mostly non-violent. There are rules to the game which you have to follow, some of them no doubt quaint, some which you may disagree with, but you still have to follow them. One can't just take one's ball and go home.'

'But isn't Cricket too elitist a game, an essentially upper middle-class preserve, far removed from the realities of everyday life, to be an appropriate learning experience,' said I.

'That's exactly my point, dear chap!', Saleem said lapsing into his occasional Briticisms, acquired from an assiduous reading of P G Woodhouse. Politics in Bangladesh, like Cricket is essentially a middle — and upper-class conceit. All the major players and the constituencies that politics caters to, are from the privileged classes. The country, the common man or woman are just useful constructs which embellish the rhetoric of politicians, but actually have little significance. Cricket is a game the political elites understand, but unfortunately don't play.'

'Much of Marquez's work is about the thin line between fantasy and reality in the context of South American societies. How will you work that angle into your novel, Saleem?'

'Bangladeshi politics and society are no stranger to fantasy, my friend. Reality intrudes hardly at all into the political process here. The capacity to suspend all rational thought, and the ability to hear voices are essential criteria for Bangladeshi politicians.'

'What do you mean, hear voices, I said with a puzzled expression on my face.

'What I mean is that, politics here has a certain messianic quality. Politicians are always harkening to a higher calling, leading their flock into the promised land of milk and honey, free of vice and corruption. Bangladesh is a con-man's paradise, with coloured water peddled to all and sundry. I sometimes think that politics here is like a bad Hindi movie, with no end in sight, or as my friend Willy Shakes put it "its all sound and fury signifying nothing."

'You seem a tad pessimistic, Saleem', I said.

'Why not at all, old boy! Bangladesh is a writer's paradise. All this chaos and disorder. This is what great literature requires. I mean just think about it. If everything was settled, there would be no human drama, nothing to write about. I tell you, it must be murder to be a writer in Switzerland, all those clocks, and everything working. Thank God, there's no chance of that here.'

On that cheery note, Saleem took his leave, and I was left pondering the past, the present, and the future!!!

International Property Piracy Slows Development

by Jeanne S Holden writes from Washington

PIRACY of goods protected by intellectual property rights is not in the long-term interest of any country, says an intellectual property rights expert.

Christopher Meyer, former senior attorney at the US Patent and Trademark office, says an economy that does not combat the piracy of works protected by copyrights, trademarks and other intellectual property rights will find the development of its own infrastructure delayed.

Currently a private-sector attorney and university professor specializing in copyright issues, Meyer was interviewed by USIS before leaving for China to participate in a series of training workshops under a 1995 bilateral intellectual property rights enforcement agreement.

Under the enforcement agreement, China agreed to crack down on the widespread and costly theft of US computer software, compact disks, CD Roms, video products including video games, books, periodicals, and other goods.

However, recent reports by such groups as the Washington-based International Intellectual Property Alliance (IIPA) suggest there's been little progress in curbing the production of goods that infringe or violate copyrights and trademarks.

"Ideally the Chinese will put an end to rampant illicit copying of US-owned computer software, films, books and CDs," said Meyer, "because it is really in China's own interest to do so." He said legitimate Chinese-owned software, movies and other industries won't flourish until local producers are confident their goods will be protected.

Meyer pointed out that the profits earned from piracy in China are not spread widely through the economy, but generally held by a narrow elite. He acknowledged that pirated goods are always less expensive than legitimate ones, but said piracy in China has not been aimed at providing cheap goods to the local population.

USIS

1995 Nobel Laureate in Economics

Expectations and Rationale

by Kabir U. Ahmad

PROFESSOR Robrt E. Lucas Jr. of the University of Chicago has been awarded this years' Nobel prize for economics in recognition of his outstanding contributions to macroeconomic theory. He had been the leading exponent of a new school — Rational Expectationist school — of macroeconomic theory that has come into existence during the last twenty five years or so. Whatever may be the value of his contributions to macroeconomic theory and policy, the impact it has had on macro-econometric methodology has been formidable. A brief review of the issues involved would be useful.

The background : Since the Rational Expectationist school is reviving the most fundamental elements of the old classical macroeconomic theory with new technical apparatus and rejecting the Keynesian theory, it would be appropriate to briefly review the evolution of macroeconomic theory over the last seventy years of this century.

Economics is a dynamic subject and has been evolving by way of analysing, and providing solutions to, the problems of various phases of development of the capitalist system. In the wake of the First World War, the decade of 1920s saw the phenomenon of rapid investment, economic boom, full employment and high inflation which was followed by the great depression of 1929-31 all over the capitalist world with untold human sufferings. In the United States, it lasted for about 10 years from 1929-39 until a vast amount of defence expenditures began to pull the economy out of the doldrum. During the depression, among other things, more than 25% of the workforce in almost every one of these countries was laid off leaving them in a state of extreme misery and hardship. It is this state of affairs that spelled the doom of the classical economics and gave birth to the widely-acclaimed (some called it "revolutionary") interventionist economics of John Maynard Keynes which dominated the thinking of economists and politicians for almost 40 years.

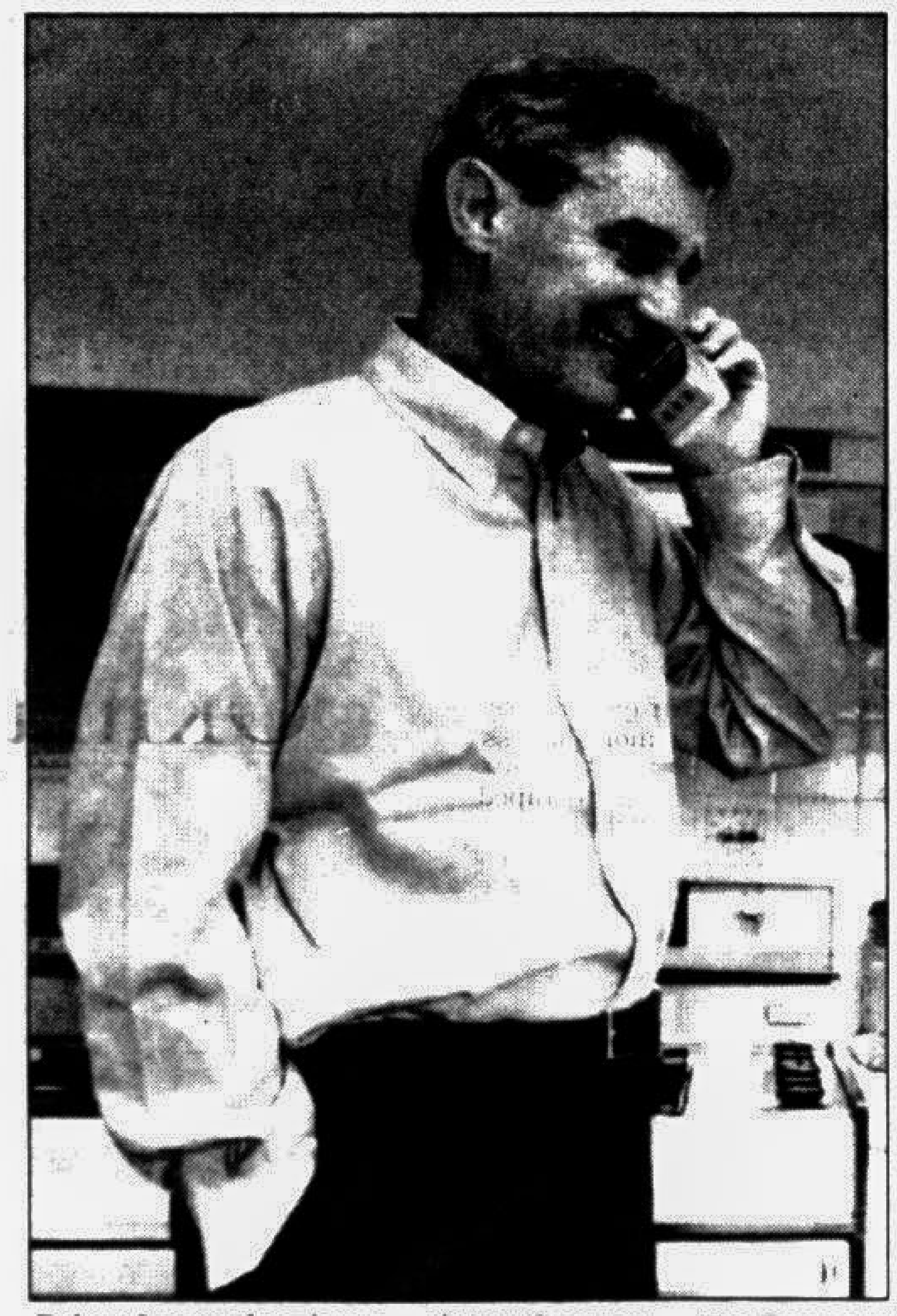
The classical economic theory that grew at the mature stage of the capitalist system, contrasted with the Mercantilist system in the earlier stage, emphasised (a) automatic market mechanism, (b) least amount of government taxes and expenditure, (c) no manipulation of money supply, (d) free trade and (e) gold standard for settling international accounts. Automaticity of the market meant that an economy left to the free forces of supply of, and demand for, goods and services as well as of investment will, by itself, cure its problems, and, further, will lead to full employment of labour and stability of the economy. The mechanics of achieving all these is the free play of flexible prices and wages. In a free market economy, they thought, if prices were allowed to adjust without any hindrance from any side, all goods and services would be sold out at some positive prices and hence the market will be cleared. Corresponding to the prices so determined in the goods market, if the investors find that wages were also flexible, then they would hire at the free market wages whatever amount of labour was available to produce the goods and services that would fetch them enough profits. Therefore, the labour market was supposed to be cleared also. In the classical model, therefore, there cannot be any unemployment. Flexibility of wages and prices and market clearance are the most fundamental features of their theory.

Another feature that needs to be stressed is the money supply implication of the gold standard system. It calls for increasing money supply when excess inflow of gold takes place resulting from trade surplus and decreasing money supply when outflow of gold takes place resulting from trade deficit of a country. This system, which Keynes attacked bitterly, led to the sacrifice of domestic economic stability for the sake of international stability.

When the great depression hit these economies hard leading to the bankruptcies of big corporations, medium-sized business firms, banking system, and insurance companies etc. along with the collapse of the stock market and failed to bring the vast number of unemployed labour force back to work, the economic system as well as the classical theory of the "automatic" market mechanism," perfect flexibility of wages and prices" and "market clearing" concepts came under heavy attack. It was in this background that John Maynard Keynes challenged the entire classical theory and offered his own "General Theory of Employment, Interest and Money" (1936) (he was of course developing the rudiments of his theory of money since 1919) which changed the whole paradigm and thought processes of the economists and politicians for generations to come.

The essentials of Keynesian economics are the following : (a) the occurrence of deep depression is a failure of the market mechanism, and it can fail due to lack of effective demand (i.e.; demand for goods and services backed up with purchasing power of the buyers). Market may not automatically restore equilibrium with full employment all the time, rather it may bring about equilibrium with sizeable "involuntary" unemployment (people are willing to work but there are no jobs available). At the root of this market failure lies (b) had expectations about the future (it should be noted that although Keynes consistently talked about the role of "future expectations" in every aspect of his model, which is what the Rational Expectationists like Robert Lucas, Thomas Sargent and Neil Wallace etc. have been emphasizing in their works, he did not introduce it as an explicit variable in his functions) and (c) rigidity in the wages, prices and interest rates. He stressed that wages are rigid downwards for reasons like trade unions' resistance to wage-cuts below certain level and the customarily paid subsistence wages setting the wage floor etc. Similarly, the liquidity preference functions, which was his innovation, also had a floor rate below which interest rate cannot be driven down since people will hold all their cash at a certain positive interest rate if the future looked highly risky. Such rigidities can prevent market clearing processes. (d) Market equilibrium, therefore, could be reached with idle capacity and also with vast amount of unemployed labour force. If such market failures occurred, and the society wanted full employment of labour, (e) then the way to achieve that was by adopting expansionary fiscal and monetary policies. This is why Keynesian model is known as the "interventionist" model. What is more, once full employment was achieved, and (f) if the government wanted to sustain it, then it could do so by "fine tuning" the apparatus of monetary and fiscal policies.

On the intentional adjustment mechanism, he saw that during the depression and the Second World War (SWW) period countries after countries were abandoning the gold standard and there was chaos in the international payment system. After the SWW, (1945), when he was called to the Bretton Woods Conference he introduced the Fixed Exchange Rate System for the postwar world, which was an extension of his interventionist policies, and created the IMF to oversee this new system. (g) The essential features of this new system were that countries could settle their international payment liabilities in US dollar, British Pound or in gold at a fixed rate of exchange (e. g. 1 ounce of gold = $35, and $5 = 1 Pound) and these initial rates could be changed as and when the domestic governments adjusted their rates of exchange periodically. The Keynesian system, therefore, was geared to minimising fluctuations both in the domestic and in the world markets with the target of maintaining full employment.



Robert Lucas, the winner photo : Courtesy — The Economist

Challenges to the Keynesian Theory : From 1945 to 1970, there was by and large a consensus about the efficacy of the Keynesian system. Although some countries were devaluing their currencies periodically to adjust to the newly developing domestic and global monetary situations, the system seemed to have served the countries as well as the world reasonably well during this period.

However, during the decades of 1950s and 1960s, two important theoretical developments took place : one was the Phillips Curve and the other was Milton Friedman's and Edmond Phelp's critiques of the Keynesian model and the Phillip's Curve.

Professor A W Phillips of The London School of Economics published his path-breaking work on 'The Relation Between Unemployment and the Rate of Change of Money Wages in the United Kingdom 1861-1957' (1958). This applied econometric work was in the Keynesian tradition. From this grew a major macro-theoretic tool establishing an inverse relationship between the rate of unemployment and inflation. It showed that as the rate of unemployment decreases, the rate of inflation increases; but at some point, say, at about 3%-4% unemployment, the inflation rate becomes zero, and beyond that point, as unemployment rate increases there will be disinflation in the economy. This relation became the most widely discussed, econometrically tested and accepted tool of macro-stability analysis all over the world. It became a powerful tool for the policy-makers too since it showed that if the government wanted to maintain a given percentage level of unemployment permanently, it could do so by accepting the corresponding rate of inflation which could be managed by manipulating certain rate of money supply. A consensus in the profession prevailed on it until Milton Friedman, the leading exponent of the Monetarist school, in his Presidential address to the American Economic Association (March, 1968) challenged it. He pointed out that such equilibrium or natural rate of unemployment could not be sustained for long just by controlling the aggregate money supply without looking at the supply of, and demand for, labour and the search costs etc. in the labour market. These micro-foundations for macro-policy analysis were neglected by Phillip's Curve. In the same year, however, Edmond Phelps's paper on "Money-Wage Dynamics and Labour Market Equilibrium" (August, 1968) showed that expectations generated by policies can shift the Phillips' Curve and that the longrun Phillip's Curve can be vertical implying that at the full employment level inflation rate can be infinitely high. These theoretical developments had shaken the consensus view of the decade of 1960s on the Phillips' Curve.

Developments in 1970s and the Contribution of Robert Lucas : There were two additional developments in this decade which came as a frontal attack on the Keynesian system and the Phillips Curve. One consisted of (i) the world monetary events and the Oil shock while (ii) the other was theoretical

(i) The Fixed Exchange Rate system of the Bretton Woods Conference broke down in 1974 because of the over — and under-valuation and the misalignments of some of the major currencies as well as of the value of gold. Because of the heavy military expenditures of the US government for Vietnam war, US dollar, which was also the reserve currency of the world monetary system, was overvalued. So was the value of gold. German Mark was appreciating. The Exchange Rates especially of the US dollar, and gold needed readjustments but nothing was done. Under such pressures, the Fixed Exchange Rate system of the world collapsed giving way to the freely floating system, which has its own faults. After the 1973 Arab-Israeli war, the OPEC raised the oil prices by four times ($2 to $8 per barrel) in 1974 which pushed the price level up in the industrialised economies at a time when these economies were going through recession. Such simultaneous rises in the rates of unemployment and inflation were contradictory to the prediction of the Phillips Curve, and as a result, the profession lost faith in it. But one must remember that "Stagflation" is not a permanent phenomenon of the free enterprise economies, it was a temporary phenomenon.

(ii) The theoretical attack on the Keynesian system using Rational (not Adaptive) Expectation as a variable was mounted forcefully by Robert Lucas in his major article on "Expectation and the Neutrality of Money" (1972), and in "Economic Policy Evaluation : A Critique" (1976), among his other publications. It is the latter article that contains the major attack.

The mathematics used in the model is formidable. But to give a flavour of what he is saying one should first look into what is known as Lucas Supply Function. It relates output as an increasing function of price surprise, i.e.; the unanticipated increase in the aggregate price level. This price surprise variable is the difference between the actual price in the market in the current period and the expected price given all the information in the market in the same period. Incidentally, this is also Luca's interpretation of the Phillips' Curve. But while Phillips rationalised it as a mechanism of wage response to labour market disequilibrium, which makes good sense, Lucas's supply function assumes that supply equals demand in all markets including labour market. This difference between Lucas and Phillips is critical because while Phillips considers Labour market disequilibrium is a normal phenomenon, Lucas works with the market clearing assumption to begin with. In the world of Lucas, like that of the old classicists, there cannot be any unemployment, which lacks any sense of reality. One further point should be noted : His supply function is an equilibrium interpretation of the relationship between unanticipated inflation and output or one can say that it is a relationship between monetary shocks and output.

On the demand side, after considerable simplifications of a classical quantity theory type equation which he has expressed in logarithmic terms, Lucas makes his demand for output as a function of real money balances. This model of supply of, and demand for, output can be solved (after drastic simplifications using Bayesian Theorem on developing a posterior mean from the prior mean of information of the economic agents) to show that output responds only to unanticipated changes in nominal money with a positive (fractional) elasticity. What follows from this is that output does not respond to any announced changes in money supply implying that workers or suppliers of output will adjust their positions in response to the announced policy such that their output supplies do not change from their previous levels. If this conclusion holds, then neither the Keynesian model, which works with interventionist monetary and fiscal policies, nor the Monetarist model, which recommends a steady money supply policy, is of any relevance to the economy. Lucas's model makes these models totally useless. These implications have been contested and found to be incompatible with what happens in the market in response to announced and systematic changes in money supply.

Challenges to Lucas : A number of authors, stunned by the implications of the theory of Robert Lucas, have re-examined the various aspects of the US data on money supply and output using Rational Expectation hypothesis. Kenneth Rogoff (1987) has shown that both announced and unannounced changes in money supplies gave rise to increases in real output, which destroys the basic conclusion of Lucas's theory. Stanley Fisher (1977) has shown that despite the presence of Rational Expectation, systematic monetary policy can stabilize the economy in which sticky prices and wages play any role.

Some Concluding Observations : The macro model developed by Robert Lucas is essentially a revival of the old classical frictionless model with the built-in assumptions of rational expectation and market clearance. There cannot be any unemployment in this system. Although the econometric estimates of the model are increasingly challenging these assumptions, its methodology has become a standard technique in almost all the macro-econometric estimation works.

The field of macroeconomic theory is now in a state of flux with three (the Keynesian, the Monetarist and the Rational Expectationist) schools of thought contending for the mainstream position of the theory. Each of these schools has some strong points but none can satisfactorily explain the inherent and diverse problems of the economy. There is a need for developing a macro-model incorporating the important elements of these three models. The theoretical works of Stanley Fisher and Oliver Jean Blanchard seem to be attempting such an integration. One hopes that this is accomplished in the near future.

In the meantime, for a third world country like Bangladesh which is ridden with all kinds of market imperfections and failures as well as institutional and behavioural rigidities, a well-developed Keynesian framework, rather than the Monetarist or the Rational Expectationist model, would be more suitable for analysing the problems of the economy. In this respect, the works done by the European Keynesians like Edmond Malinvaud, Jean-Pascal Benassy, Richard Portes and John Muelbauer as well as their American counterpart like Larry Summers, Alan Blinder, Robert Solow, Robert Eisner and Gregory Mankiew should be extremely illuminating.

TOM and JERRY