

CA's Wise Words

Watchful of some comments on an issue or two, Chief Adviser Mohammad Habibur Rahman took the earliest opportunity — on the eve of Bangla new year — to urge the avoidance of any controversy during the functioning of the caretaker government. We lend our fullest support to his impassioned call for a distraction-free working of a government charged with the responsibility of fulfilling a specific mission within less than three months' time, as calculated from today.

For all practical purposes, the caretaker government has not only been the end-product of a long drawn-out political movement it has also been living up to our expectations in its non-party interim capacity. The BNP is no longer persisting in its allegations about the "partisan role" of some officials of the administrative cadres during the opposition's non-cooperation movement. And the opposition has reasons to be satisfied that the postings and transfers made by the then ruling party are being reviewed with the changes already getting underway for the sake of free and fair polls. We only wish that the process of shuffling will be completed at the earliest in order that the local administrations' efficiency is not affected by an air of uncertainty.

As for the opposition's demand that the responsibility of the defence ministry, now vesting in the President of the Republic in terms of the 13th Amendment to the Constitution, be transferred to the Chief Adviser, we suggest that a practical response to the issue would be to debate it threadbare in the new Parliament. Till then, let us spare this government from pronouncing on the issue.

Now is the time for all the political parties to extend their wholehearted cooperation to the caretaker government in strengthening the CEC, in formulating an appropriate code of conduct for the elections, and in recovering all the illegally-held arms and ammunition. The Chief Adviser's emphatic call to all the political parties that they withdraw their support and shelter to the possessors of unauthorised weapons strikes a responsive chord with us. This is a golden opportunity for the political parties to rid themselves of the stigma of having given an avoidable indulgence to their extra-militant supporters.

While appreciating the caretaker government's flair for consultation with all the political parties in areas where this is deemed necessary, we are hoping that it will be reciprocated in the form of unflinching cooperation by the latter.

Pahela Baisakh Gains

This year's celebration of the Bengali New Year's Day had an ominous start. People were bewildered as to the actual day it fell on. The 13th or the 14th April? The Bengali calendar has been with us for at least three centuries and a half — one theory puts it at four times as much — and has all the time been called the Bangabda. In the last four or five decades' time this eastern subcontinental calendar has fallen into disuse, specially in the urban areas. When a national resurgence shaped a sovereign state in the region it also revived interest in the calendar. That led to a calendar reform. The resulting reform, open to question as it is, was miscomprehended and we had that confusion. We had asked in this column that both government and Bangla Academy clear the confusion in time. Thanks to them the confusion was ended, hopefully, for good. From now on Pahela Baisakh will always correspond to April 14 — without an exception.

The bad start was more than made up by an all pervading atmosphere of festivity. More than rushing to the musical invocation of the day at the Ramna Botomul, this year Pahela Baisakh seemed to have invaded the homes. A surfeit of bonhomie informed the day with the families coming out in their best attire and treating guests with the best of Bengali cuisine.

The Pahela Baisakh festival is yet to be picked up by the government organisations although the day has long been declared a national holiday. The Dhaka Municipal Corporation can have a very fitting role in this. They can pioneer representative bodies' response to the national event by organising at different city points *melas* and music and shows at different hours of the day, leaving the mornings to events, which have now become a proud tradition.

Transporters or Pirates?

Some armed transport workers set an example of new aggression in Sylhet town on Saturday.

Chagrined at the police arrest of a compatriot in a dacoity case, transport workers had gone for strike on Sylhet-Monglabazar road. Local people called a meeting to protest the sudden stoppage in vehicular traffic inviting thereby the wrath of armed transport workers who rushed to foil it. The people at the venue of the meeting giving them a chase, the transport workers relented briefly but thereafter an armed group of them went back to avenge their pursuers. The police had to intervene taking five workers into custody in the process.

This long chain of events culminated in the armed transport workers carrying off from the police van not only the five arrested but also a police constable and one of the Ansar personnel along.

The transport workers have dared both the law enforcement personnel and the local people in their no-holds-barred militancy. The fact is they have done this on the weakest possible ground: Their colleague whose arrest by the police in connection with robbery had set off the chain reaction has himself admitted to his involvement in the crime.

We give the police and Ansar a big hand for their good work done under very trying circumstances. Hopefully, they have seen already saved from the clutches of the armed pirates and that they would be more equipped to deal with a situation like that next time around.

THE external exchange rate of a country's currency vis-a-vis other currencies is an economic variable, which from the beginning of this century upto the present time has been set or influenced by governments as a conscious policy decision. It can either be tightly controlled and fixed by government decree or allowed to "float" to market forces freely or within a "desired" or "desirable" range, with many other approaches in between. An efficient, competitive and growing economy with low inflation would tend to have a stronger currency over the long term. Looked at another way, the purchasing power of a currency in its home country would determine its external value over the longer term. The more rapid the deterioration of real purchasing power, the more rapid is the decrease in external value or exchange rate of that currency.

Devaluation occurs when a government deliberately adjusts downwards the exchange rate of its currency, while a currency is said to have depreciated in external value when its exchange rate goes down in a freely floating currency market without government intervention.

The word "devalue" is loaded and comes with a negative connotation which is somewhat unwarranted in the currency context. As a simplification, assume that all our foreign currency needs are met from export revenues. A devaluation or depreciation simply increases the Taka cost for the user of foreign currency (let us say dollars) not the dollar cost for the country, and increases the Taka amount to the earner of dollars (i.e. the exporter). It is therefore an intra-country transfer only, and does not involve a transfer of wealth or income to foreigners as sometimes thought. In that sense, a "downward adjustment" of the exchange rate is a more suitable term than devaluation or depreciation, since the intrinsic "value" of the currency in its domestic context remains unchanged, (i.e. the same amount of money still chases the same national output of goods and services).

It is important to be clear about the cause and effect relationship: the weaker the economy, the weaker will be the intrinsic value of the currency and not vice versa. That is, a devaluation or currency depreciation is a reflection of an already debilitated economy. It is not that the devaluation/dep. leads to a weakening of the economy. On the contrary, it is often the required adjustment to reality, which enables the economy to once again return to a healthy and balanced position.

In fact, while there is considerable research, literature and evidence on the economic ill effects of an "overvalued" currency (i.e. a currency whose intrinsic value is lower than the exchange rate maintained by the government directly or indirectly), there is not much to be found on undervaluation. I suspect that undervaluing a currency may, in fact, be beneficial on the whole to the concerned economy (the Japanese and Korean currencies were arguably undervalued for long periods of time), and is simply one of those options which everyone cannot start availing at the same time since competitive devaluations would simply cancel each other out. (Witness the recent grumblings within the European Union about the UK's devaluations.)

Increasingly, people are becoming accustomed to the idea of currency devaluation and many are now pushing for a suitable downward adjustment of the Taka from its current level. Until very recently, devaluation was a dirty word in Bangladesh and there was hardly any support (with the

notable exception of the WB) for a weaker Taka. Now that the mental block regarding this negative sounding word has been removed, I believe we can address the issues more constructively.

For Bangladesh, the appropriate question is — what is the optimal exchange rate policy and what should the rate be today under that policy to achieve the best economic results? Unfortunately, the exchange rate issue is not being approached in this way. On the contrary, our exchange rate determination is currently quite passive. This may be contrasted with the obvious policy being followed by Pakistan for decades, where the Pakistani Rupee very closely follows the Indian Rupee. Given Bangladesh's border situation, huge legal imports and main competitor status with India, a policy of linkage with the Indian Rupee makes even more sense for us, based on maintaining purchasing power parity between the two currencies.

What Bangladesh actually does is maintain a stable Real Effective Exchange Rate, or REER, vis-a-vis the currencies of Bangladesh's major trading partners (i.e. countries from whom we import and to whom we export). Starting with some base year (100) and starting point (a year in which BOP balance of payments, was in "equilibrium"), the Bangladesh Bank keeps adjusting the Taka

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value to compensate for the difference between domestic inflation and inflation in the trading-partner countries, so that purchasing power of the Taka vis-a-vis the currencies of the major trading partners is reflected in the exchange rate. The underlying assumption is that maintaining a stable REER would also maintain enough competitiveness of tradeables to ensure a healthy balance of payments equilibrium in the medium to long term.

The major problems here are, straightaway, that the base year is quite arbitrary, while the usefulness of keeping up with the major trading partners is not well established. The base year exchange rate is assumed to reflect an equilibrium position, i.e. the inflows and outflows of foreign currencies are balanced and sustainable at that rate. This assumption may be quite unwarranted and the base year exchange rate may in fact be way out of line. It makes more sense to keep up with major competing countries, as opposed to major trading partners, as suggested earlier.

The REER system is also often found to be inconsistent with BOP equilibrium, as both India and Pakistan have shown. For example, since 1985, India's REER has had to come down to around 56, (while Pakistan's is down to 68), to achieve BOP equilibrium. The more pertinent question is, why follow such an apparently passive approach to exchange rate setting? Why not consider exchange rate setting as an important instrument of economic policy and use it more aggressively to promote the country's long term economic interest, fitting it into the complete package of policy measures?

One approach is to work on the premise that the best exchange rate is the one that will be determined by the free play of demand and supply forces in an open foreign currency market, since the exchange rate would keep going up and down to restore any BOP disequilibrium. While developed (and many progressive developing) countries follow this approach,

Why Devalue the Taka?

by Feisal Siddiqi

It usually complements virtually free trade with nominal import tariffs, so that both the currency buying and selling and the underlying goods and services transactions are open and unrestricted. The problem with Bangladesh is that exports are open, unrestricted and relatively tax free (at the Bangladesh end, and largely at the destination end as well) while imports are still relatively heavily taxed (at the Bangladesh end). Therefore, imports are relatively suppressed, so that demand for foreign currency is relatively suppressed, and the exchange rate of Taka in a free currency market in Bangladesh would tend to be artificially high (thereby resulting in an anti-export bias).

A more subtle problem, perhaps unique to Bangladesh (though apparently Israel and Egypt also suffer the same problem), is that foreign aid flows at close to \$ 2b comprise or meet up a substantial portion of our total foreign currency needs of about \$ 6 billion (the balance \$ 4 billion coming from our remittances and export earnings). If the GOB did not meet its annual budget shortfall (ADP) largely from external aid flows, but raised it domestically through higher taxes or national debt borrowing, and we assume away this \$ 2b foreign currency inflow, a huge hole

would arise in the foreign currency market, which would necessitate a similarly huge devaluation or depreciation to restore demand supply equilibrium. This aid-induced distortion in essence therefore sustains a substantial overvaluation of the Taka with reference to a long term equilibrium exchange rate which would equate demand/supply in the foreign exchange rate. The obvious corollary is that long term orientation towards exports and export growth is being held back due to the adverse price signals (through an overvalued exchange rate) as a result of this significant aid-induced distortion, another anti-export bias.

Given this aid-induced distortion and significant import barriers, even a completely free currency market would therefore still "overvalue" the Taka vis-a-vis the rate consistent with long term BOP equilibrium with free trade and reduced aid. Nevertheless, the GOB shied away from an earlier commitment to fully float the Taka by November 1995, due to a rapid deterioration of the current account, the reserves position, and inflation. It was feared that there would be a rapid depreciation of the Taka, introducing volatility and cost-push inflation (through imports).

While there are many valid counter arguments, let us assume simply that the GOB is erring on the side of caution. But surely, if all indicators point to the need for a substantial downward adjustment of the Taka (including substantial slides in the external value of the currencies of our neighbours and main competitors — India, Pakistan, Sri Lanka), the GOB must start devaluing the Taka in an orderly fashion, having ruled out the depreciation option as being potentially volatile and disruptive. Instead, inappropriate measures to curtail imports have been taken, such as "credit ceilings" on import related finance. These are completely contrary to the norms of an efficient and open market economy and start introducing unnecessary distortions. Meanwhile, Bangladeshi exporters continue to face a persistent

any protection in any case). We must keep in mind that, after all, our exporters are surviving without any protection, in fact, may be even "negative" protection. Therefore, there is nothing inconceivable about the idea of not affording any "protection" to anyone. In this context, it is worth noting that the Sri Lankan Government has already given notice to its business community that import taxes will shortly be made uniform (i.e. a single rate for all items), and that rate would be under 15%. Anyone can work out, with a bit of thought, that the only import tax structure which completely removes "tariff anomalies" (i.e. where a higher tax rate is paid on imported raw materials than on the imported finished goods made out of that material) is a single tax rate for all items, particularly when rates are compressed (to under 30% for example).

Furthermore, the economically most efficient import tax rate in theory is the lowest possible, i.e. zero, with greater efficiency in an economy being achieved the lower the import tax rates. We need to become accustomed to the idea of a zero or near zero uniform import tax rate, which would in fact be consistent with: 1.) Eradication of all tariff anomalies, expansion of trade and economic growth, reduction of anti-export bias, greater competitiveness and efficiency of the economy. 2.) Dwindling away of the illegal unrecorded border imports since "transaction" costs and other inefficiencies involved with "border" trade would be higher than in zero tax imports through the usual legal channels. 3.) SAPTA rapidly moving towards SAPTA. 4.) Bangladesh rapidly achieving GATT/WTO objectives. 5.) The reality of duty free textile imports by the RMG industry.

This reality would be explicitly recognized, generalized, and taken into account into the overall situation of the textile industry. Fabrics would remain tax free, but grey fabrics, yarns, dyes and chemicals and raw cotton/polyester would also come tax free, so that local textile manufacturers trying to be competitive with tax free imported fabrics would have a much better

chance. The entire textile sector would in fact become more globally competitive and efficient. The elusive "backward linkage" could begin in earnest.

If at this point there is a feeling that something is a miss in the above arguments, there is. A substantial devaluation/depreciation should accompany the above measures. Suppose, for example, that the average import tax rate today is 30 per cent. This could be reduced at one stroke to 20 per cent while the Taka is devalued 10 per cent simultaneously. With some simplifying assumptions, there is thus no cost-push inflation, nor any unjustified decrease in protection or increase in import demand. Repeated decreases (and compression) of import taxes, accompanied by matching devaluations, could bring us closer to the "dream" of zero import tax — constrained only by the need to raise Government revenues, which should in fact be increasingly through VAT. This would reduce consumption overall and raise savings and investment, another pressing need, in a trade neutral fashion. But what a boost this would provide to external competitiveness of our exports and potential exports! No amount of energy, credit, tax and other less direct forms of incentives/subsidies can match up to the impact of a straightforward devaluation/depreciation

The direction of economic policy for Bangladesh is therefore clear — free and functioning markets to achieve efficiency, competitiveness and global integration leading to investment and burgeoning trade. Any intervention in terms of market failure import taxes need to be reduced to a uniform and low level, the foreign currency market needs to be completely deregulated, and the Taka floated to find its (depreciated) value. If the GOB is still afraid to let go because of presumed volatility, it should immediately devalue substantially as a pro-active measure, before events overtake and overwhelm, and it ends up being too little too late. There is no doubt that non-private flows (aid, soft loans, etc.) will start drying up alongside the export slowdown and rapid import growth, and our exchange rate targets to achieve BOP equilibrium should re-adjust accordingly in the short-term, while the longer term approach to exchange rate policy should be re-thought along the lines suggested above.

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Art Buchwald's COLUMN Republican Fun

AFTER watching the primaries, I have decided the Republicans are a lot more fun than anybody. They're fun for cigarette smoking and also the right to life. To make things even more confusing, they're against gun control but for prayers in school. To be a Republican you can now have the best of all worlds and Pat Buchanan, too.

The party's support of cigarette smoking doesn't surprise me because the tobacco industry is one of the biggest contributors to political campaigns, and what candidate would dare refuse to take money from the Marlboro Man? Republicans are for free choice except when it comes to rape and incest and Lucky Strikes.

The GOP is sensitive when you raise the right-to-life and gun ownership topics together.

The reason why the Republicans will fight to the death any laws that prevent people from buying guns is that the Republicans are so much better shots than the Democrats.

For example, if you put one member of each party on a rifle range and have them shoot at a negative TV commercial, the Republican will hit a bull's-eye every time. The Democrat can't hit the side of a TV screen.

When it comes to the right to life, GOPers prefer guns and liberal Democrats believe in butter. But the main reason the Republicans oppose a waiting period to purchase guns is that the National Rifle Association (NRA) has even more money to give the party than the tobacco industry.

The butter people say that between tobacco and guns the Republicans could wipe out half the population.

But the leaders of the elephant party say those casualties can be replaced by the babies they save once their candidate is elected president.

The questions are: do the tobacco people want anything in exchange for giving money to the GOP? And what does the NRA expect for its donations?

If you believe the chairman of the Republican party, when giving money neither lobby expects a legislative favour from Congress. The contributions are made solely to guarantee that America will have a better government, a balanced budget and Pat Robertson conducting his TV show from the White House.

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To the Editor

Straddle-carriers

Sir, This has reference to a news item published in your esteemed daily on April 9, 1996 regarding straddle carriers at Chittagong port. It is reported that staff union has protested employment of four straddle carriers taken on rent from private sources. These days it is found that some people working in a public organisation feel that they own it and they try to regulate the activities of such organisation the way they feel that will protect their interest only.

All public sector organisations/institutions/establishments are owned by the 12 crore people of Bangladesh and not by any individual or a group or even the staff union. The only consideration that should receive priority is that should an action taken in such organisation is in the greater interest of these 12 crore people. Any individual in an establishment is only the custodian of that organisation and is to ensure that all actions by that organisation is in the greater interest of the people. If the straddle carriers in question help in easing the congestion in the port area and save the government from making huge investment for purchase of the same, then as citizens of the country we do not find any reason why the staff union should oppose use of these straddle carriers. Of course, they have the right to protest if the utilisation of the straddle carriers goes against the interest of 12 crore people of Bangladesh.

A K Khan, Swamibagh, Dhaka.

Without guns and violence and destruction

Sir, The 120 million people of Bangladesh had to undergo a painful and traumatic experience in the recent weeks due to the power struggle of the political parties. The poor country and its poor people suffered tremendous hardship and financial loss. It will take years before the losses can be recovered. We are relieved that the trauma is over. But the question remains, can this happen again? What can we do to prevent the recurrence of such phenomenon? Should there be some safeguards embodied in our Constitution? Should there be some modification in our political system?

We have created history by establishing the provision of a caretaker government for leading general elections in the country. We have done this deviating from the beaten path in response to a national consensus for the sake of a neutral and fair election. The people at large want peace, stability, growth and development in a democratic body politic which will also ensure justice, fairplay and a neutral administrative machinery. We should not hesitate to deviate from the beaten path to adopt measures to achieve the above objectives. Something needs to be done to safeguard and protect the interest of the people from the vicious power game of the politicians and to ensure smooth and peaceful transition of power from one regime to the other without resorting to gun running and violence and without large-scale destruc-

tion of private and public property.

I would earnestly request you to open up a dialogue on this subject in your esteemed newspaper inviting your readers to come up with suggestions and ideas.

Habib Rabbani, Rabbani Manzil, Shantinagar, Dhaka.

"Civil Servants"

Sir, I refer to Hasina Zaman's letter that appeared in your Daily on 7 April 1996 under the title "Civil Servants". When Hasina Zaman says that the 35 senior secretaries' expression of solidarity with the recent movement against the BNP regime "is a reflection on the quality of our civil servants who are a far cry from their counterparts in India and England", she conveniently forgets that neither in India nor in England does the bureaucracy have a BNP-style government sitting over their head — a government that politicises the administration, builds and supports armed cadres, treats the bureaucracy as its own "servants", holds farce in the name of election and enters the secretariat with armed cadres.

Hasina Zaman should bear in mind that neutrality, dignity and dedication can be expected from the bureaucrats only when the government they serve is equally or more dignified, dedicated and neutral. May I ask Ms Zaman: was the BNP government endowed with these qualities?

M Rahman, 30, Kakrail, Dhaka.

OPINION

CEC and EC

Helal Kabir Chowdhury

Former Chief Election Commissioner (CEC) Justice Sadeque is no more there to be a party to conducting the country's elections. His appointment in that coveted position was questioned by the opposition political parties who argued that they should have been consulted prior to that. His performance in the February 15 "farical" election was pitiable. He defended himself as the vanguard of constitutional obligation; on the contrary, as it seemed, he just carried out orders from the ruling party (government).

Justice Sadeque met an ignoble fate but his predecessor was somewhat lucky not to be condemned nationally. What sparked off from the Magura by-election ended with the formation of a caretaker government. The time gap between the two events was marked by a period of political stalemate unknown in other nations. Justice Rouf was intelligent enough to rid himself of his position and did not have to bear the brunt of ignominy like his successor.

Justice Sadeque's recent press briefing defending his stand does not by any means make him a puritan. His overt surprise about mass rigging in a one-party election is not acceptable. May be he did not conceive even in dreams about the rigging that put him in a

CEC and EC

Helal Kabir Chowdhury

delicate situation. He faithfully served the cause which, however, went in favour of the ruling party, but in public statements he preferred to pose as a neutral official. Could he do otherwise? I suppose no. He was ruling party's appointee.

Though Justice Rouf had to leave facing a controversial situation, but his proven ability and performance in the March 1991 parliamentary election was beyond anybody's doubt. Except facing Sheikh Hasina's allegation of "subtle rigging", Justice Rouf did a good job enhancing the image of his chair.

We now have a new CEC, incidentally the first from outside the judiciary. A former bureaucrat, Abu Hena has a tough task ahead. The political parties had been demanding a structural reorganisation of the Election Commission (EC). Time is now matured for the new CEC to sit with the political parties to embody their suggestions in conducting the coming general election. The political parties should also give their support to the EC for ensuring a fair election. The ongoing arms recovery drive reminds me of the one undertaken by the former regime to ensure a fair

election which was a total failure. It is Sheikh Hasina who is clamouring for the recovery of arms and rightly drew the attention of the newly formed caretaker government. The new drive should continue unabated even after the election. Sheikh Hasina stated that in this campaign her partymen should also not be spared if found with arms. It's a manifestation of good intent. Can we expect similar statements from Khaleda Zia? Can we remind the EC of its ID card project. A costly affair undertaken by the EC seems to have met its natural death. When shall we be able to vote equipped with ID cards? What was the point of squandering crores of taka for this project when the authority seems to have forgotten it?

There had been a lot of expressed thoughts and ideas to make electioneering process effective and viable. It is believed that the EC should develop a code of conduct for itself to gain and nourish independence. Like legislature and judiciary, may we expect the EC to have some more autonomy as the office of caretaker government will be a permanent phenomenon for conducting parliamentary polls in the future?

The writer is an official of a non-governmental organization.