

Market Economy: Dimensions and Limitations

by Abdul Wadud

THE economic scenario has been changing fast all over the world. There has been a dominant feeling that the state investment and intervention had not been able to generate a competitive atmosphere in the economy that creates efficiency. There has, therefore, been a trend of switching over from controlled economy to market economy. Most of the developing countries have initiated action towards this switching-over resulting in apparent success, both economically and politically. Bangladesh cannot remain isolated from this global trend; the concept of dominant public sector has not paid enough dividends to plough back in the economy. The Government of Bangladesh has thus taken steps to liberalise the economy in pursuit of its globalisation. This write-up dwells upon the concept of market economy and its dimensions and limitations.

Concept

The concept of the market was first formulated by Adam Smith in his famous book 'The Wealth of Nations' in 1776. He described the free market system as an 'invisible hand' whereby the private interests of individuals lead to the best interest of society via the process of competition. He postulated that the individual self-interests of similarly motivated individuals will result in competition; and self-interest and competition will result in the provision of those goods that society wants, in the quantities that society desires and at the prices that the society is prepared to pay. Self interest is the driving force of the market; competition is the regulator. Without competition, a profit-hungry firm could increase prices to exorbitant levels. If it were to do so in a competitive environment, however, it would find that other firms would step into its trade. Self interest and competition would act together not only to establish optimal prices for products, but also to ensure that producers supply the quantities of goods that society demands.

The market pricing system is therefore a self-regulating mechanism for society's optimal functioning. For the market to work effectively in an environment, Adam Smith postulated that is should not be tampered with. The postulates of Adam Smith led to the doctrine of 'Laissez-faire'; let the market be alone so that the laws of the market will bring society to its point of highest return.

Adam Smith's system however required perfect market conditions. He recognised, for example, that the market system would not operate effi-

ciently if competitions were not allowed to work. The great enemies of the system are monopoly, restrictions in the market, collusion among producers, lack of information and similar conditions.

A better understanding of the dynamics of the market was provided in 1838 by French economist, A. Cournot who was the first to conceptualise demand and supply as ex-ante and ex-post relationships between prices and quantities consumed and produced respectively. He was also the first to draw demand and supply curve as the equilibrium of the desired schedules of supply and demand. The formulation of a basic supply and demand model was the first step towards giving better understanding of the nature of the self-adjusting, self-correcting mechanism of market.

Dimensions

It is very pertinent to discuss some basic issues in order to have more insight into the various dimensions of market economy.

Competition: The essence of market economy is competition. In a free market economy, there may be problems of market failure, the most frequent cause of market failure is likely to be the presence of monopoly power. Where market is dominated by a single producer or a group of producers with a chance of collusion, the exercise of such monopoly power will substantially reduce the efficiency gains that should be expected from the market system. Sometimes, monopoly under market economy is worse than market behaviour under controlled economy. The state must play an active role to promote competition and avoid

Some Performance Indicators of Developing Countries

Region	Real growth of GDP 1980-89	Growth rate of real per capita GDP 1980-89	Gross Domestic Investment/GDP
East Asia	8.4	6.7	30.0
South Asia	5.5	3.2	22.3
Eastern Europe	1.4	0.8	29.4

The data show that the percentage growth of real GDP and real per capita GDP during the period 1980-89 for the developing countries of East Asia and South Asia are impressive and remarkably higher than that of the East European countries which include Hungary, Poland, Romania and Yugoslavia. The point is that in East Asia countries the economy was open, competitive and more responsive to market forces while the East European economy was closed where competition was non-existent or insignificant.

Liberalisation: In market economy, liberalisation has become an omnibus term meaning progress towards complete laissez faire. It includes the removal of restrictions on international movements of goods as well as capital, exchange rate rationalisation, decontrol and deregulation of import and tariffs and privatisation.

Liberal trade and realistic exchange rate policies are major areas for effective implementation of market oriented economies. A realistic and flexible exchange rate is emphasised not only for short term balance of payments management, but as a fundamental tool of development policy. Import liberalisation has played a significant role in all market oriented economies.

To encourage free movement of goods to accelerate the degree of competition, tariff structure and rates should be rationalised. It is argued that while uniform tariffs may not always be necessary, highly uniform tariffs may create extraordinary pockets of inefficiency. India has followed this principle in its reforms programme to adopt and align it

with market-oriented system. India tends to discourage lipsticks and tends to encourage those commodities which are related to development plan.

Privatisation: Privatisation is an effective mechanism of decontrol and de-regulation by the state in economic activities. Privatisation implies divest-

ture, which means the sale by the state of the whole or parts of its holdings of equity shares of a government owned enterprise to private shareholders. Privatisation may embrace any steps towards liberalisation or deregulation of activities such as removal of price and distribution controls, reduction in duties and taxes on production, foreign collaboration, liberalised trade regime, free flow of capital etc.

Role of State

The market system is a powerful tool for economic management and increasing economic efficiency, but it is not by itself a solution for all economic management problems. Some of the limitations and possible difficulties need to be considered at the start. For one thing, there may be some side effects on economic security and equity that will run counter to national values and give rise to a need for state intervention in the interest of these other objectives.

The issue is not one of simply abolishing the role of the state in the economy. The state must play a positive role in building the institution and implementing the policies that must accompany using the market as a basic tool of economic management.

Moreover the benefits of the free market approach to economic management will be realised only if there is effective competition. Since competitive markets do not happen by themselves, the state must play a positive role in the development and maintenance of necessary market institution. This in the market economy, the is-

sue is not one of simply abolishing the role of the state in the economy. The state must play a positive role in building the institution and implementing the policies that must accompany using the market as a basic tool of economic management.

Although a significant part of the social regulation needed by modern societies will be provided by the state, no state can do everything well. Thus, in the short run, the question is one of prioritising. In some areas, direct regulation will be necessary; in other, a monitoring or corrective role will suffice; and yet other areas will have to be left entirely unaddressed. How much intervention is appropriate and of what type will depend upon the balance between the fiscal, political and administrative resources of the state, and the nature and intensity of social conflict.

Limitations

While the theory seems clear, and there is ample evidence that the market can be an effective tool of economic management, there are limitations of the market system that if ignored can lead to unsatisfactory results. The most important perhaps relates to income distribution and economic scarcity. Market systems tend to result in greater inequality in income distribution and higher levels of unemployment. Although progress in macro-economic management has reduced the concern about the business cycles, they have not been eliminated. Also it must be noted that influence in market-

place is based upon income and wealth rather than need. The gains from greater economic efficiency of the market system however should be more than enough to provide some compensations for those who might become worse off under a market system and still leave society as a whole substantially better off. In designing an economic reform programme, one cannot ignore the trade off between equality and economic security on the one hand and individual opportunity and economic efficiency on the other.

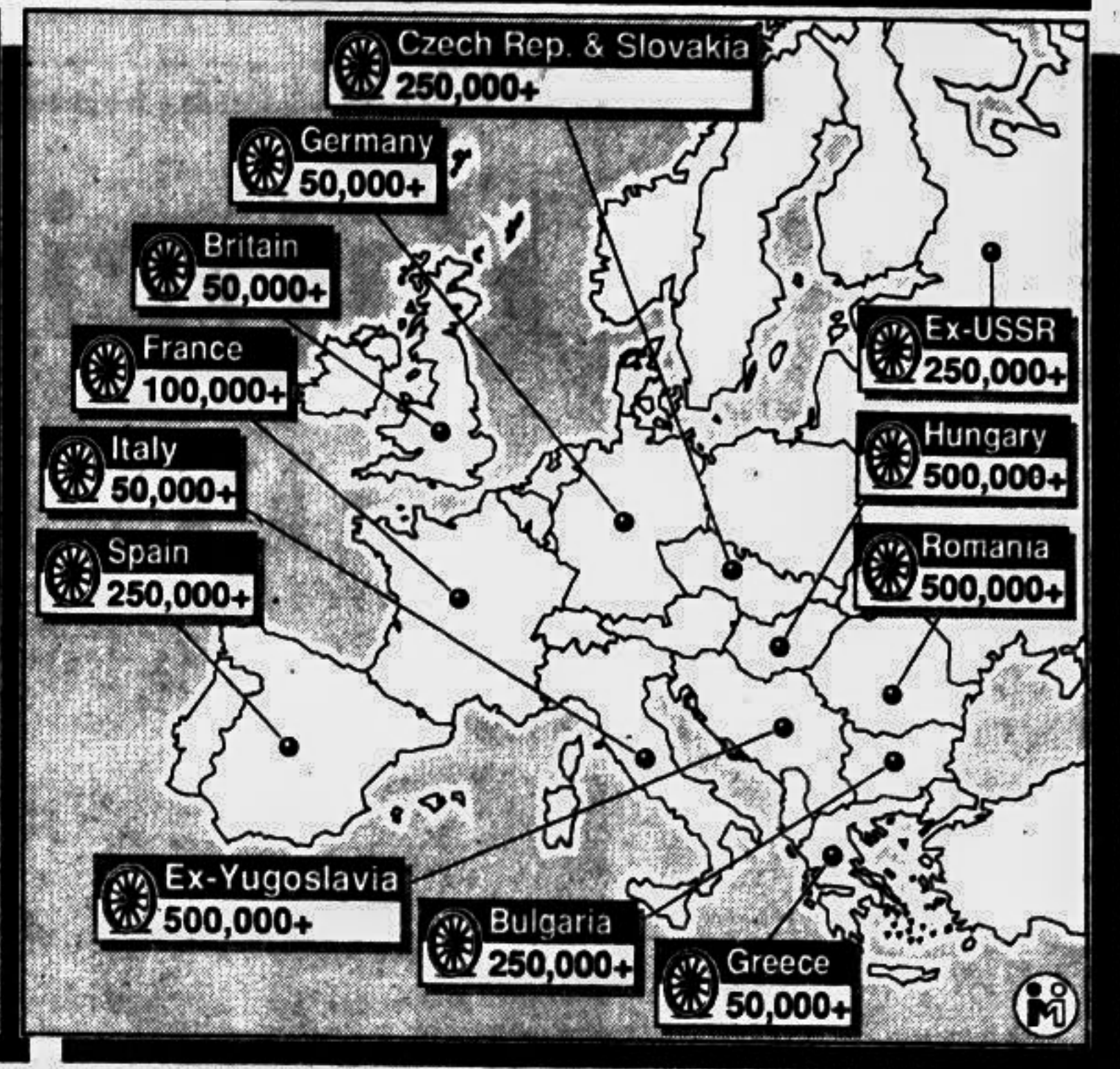
Conclusion

Market economy integrates the economy of a country with world economy and that leads to the emphasis on openness, competition, import liberalisation, export promotion, getting prices right and so on. But it is to be noted that market economy is not the panacea for removing all ills and mismanagement of economy. An important question that arises in the context of liberalisation and openness is the optimal degree of openness. Openness is a multidimensional concept. A number of factors affect the desirable degree of openness and these can be summarised as the world configuration, the timing, the sequence, the past history of the economy and its state of development. All reform measures including public sector reforms should be undertaken bearing in mind that there may be irreversible losses if the wrong kind of openness and liberalisation attempted or if the timing and sequence are incorrect.

The author is General Manager (Planning), Bangladesh Chemical Industries Corporation.

From India to Europe

- 'Gypsy' is an English corruption of 'Egyptian' since Gypsies were erroneously thought to have come from Egypt
- True origin believed to be the Indian sub-continent
- Call themselves Roma. Speak Romany along with language of host country
- Total population 2-3m. Some estimates as high as 8m
- Have their own baptism, marriage and burial practices
- Traditionally associated with music, crafts, fortune-telling and horses



Free Market — and Free Speech — Spells Trouble for the Roma

Hungary's Roma community are discriminated against in employment, education and housing and are always at risk from physical and verbal attacks. And their lot, is deteriorating, writes **Bob Dent** from Budapest

THE fall of communism and the introduction of a market economy has not improved life for Hungary's 500,000 Gypsies, the country's largest — and worst treated — minority.

If anything, life has got worse.

Roma, as they call themselves, are the last to be hired for new jobs and are usually the first to be fired, making them particularly vulnerable in a time of economic upheaval.

Unemployment among Roma is more than 60 per cent, about five times the national average, and in some areas outside the capital their unemployment rate nears 100 per cent.

Even the greater freedom of speech which has come with political and economic liberalisation has proved problematic: it has allowed space for the public articulation of previously concealed racist ideologies.

Hate-speech has been accompanied by outbreaks of physical violence.

A recent report by the group Human Rights Watch commented: "Roma remain on the periphery — isolated, despised and denied effective participation in the process that is shaping the new Hungary and the role of minorities within it."

It has been like this since Gypsies first appeared in Hungary in the late 14th century. Prejudice against them stems mostly from their determination to maintain their own traditions, including their own baptism, marriage and burial practices; their own language, Romany; and their often mobile life-styles.

Today, barely half of Hungarian Roma finish basic schooling and a large percentage of those have experienced only "remedial" classes. Prejudice is widespread, as is discrimination in housing and work.

Apart from the musicians of

the gypsy bands, Roma, while forming about five per cent of the population, are in effect absent from Hungary's political, academic, business and social life.

Social, educational and cultural projects have been launched in the past to tackle the situation, but the Foundation for Self-Reliance is the first to take a head-on approach to economic issues by funding and encouraging income-generating schemes.

"Banks are very reluctant to extend loans to gypsies," says Foundation director Anna Csongor. "However, we aim to tackle the problem with the use of microcredits."

The use of small-scale credit — much smaller than banks will bother with — has been copied from the work of a Polish microcredit institution.

The combination of grants and interest-free loans goes to grassroots organisations with an elected leadership. The current rate of loan repayment is around 75 per cent.

Most projects are agricultural. The collapse of heavy industry and the disappearance of subsidised support, such as cheap hostels, has undermined the travelling lifestyle of many gypsy workers. This has forced them to seek a means of subsistence within their village communities, which are usually found in the poorest regions of the country.

Tomato production, pig-breeding, corn and herb production are typical Foundation-financed activities. A network of activists, both Roma and non-Roma, act as monitors and aim to establish mutual trust between donor and recipient.

Among the successes claimed by the Foundation is a project in the village of Pisko, near the southern border with Croatia.

*Corn and potato production

here has been economically successful," says Csongor. "And as a side-effect, the local leader of the project is going to stand for village mayor. He has developed his capacities and people trust him. Gypsies are in the majority in the village, but traditionally mainly non-gypsies are mayors in gypsy villages."

The Foundation, founded in 1990 to promote civic initiatives in the "new Hungary", has received funding from several large grant-giving bodies, and is a past winner of the Right Livelihood Award (the so-called Alternative Nobel Prize) for its "resolute defence of Hungary's Roma minority and effective efforts to aid their self-development."

The Award citation praised its work for setting an example for activities elsewhere in Europe, where estimates of the Roma population range from 2-3 million to 8 million. They are believed to have originated in the Indian subcontinent (not from Egypt, though "Gypsy" is an English corruption of "Egyptian").

But while the Foundation's income and thus its activities are secure for the moment, the foreign backers have let it be known that they will not continue support indefinitely.

To survive, it will need local funding. And then it will itself run up against anti-gypsy prejudice.

Csongor and her colleagues have felt relatively safe from attack, but only because so far they have received very little Hungarian money.

"Attitudes in society towards Roma are getting worse," says Csongor. "If we support gypsies, then gypsies themselves are blamed for being supported, and we are accused of over-protecting them."

— GEMINI NEWS

BOB DENT is a British freelance journalist who has lived in Hungary since 1986.

Tom and Jerry



By Hanna-Barbera



IAN FLEMING'S James Bond

DRAWN BY JOHN McLUSKY



Annual revenue meeting of PDB held

The annual revenue meeting of Power Development Board (PDB) was held yesterday with Nuruddin M Kamal, chairman, PDB, in the chair, reports BSS.

Nuruddin M Kamal stressed the need for taking immediate positive action to improve the overall revenue earning and consumer services of different electric supply units of PDB.

In this context a programme has been taken up with sixteen highest power consuming electric supply units from four distribution zones of PDB for the improvement of their performance. Power Board sources said.

The electric supply units selected from distribution, central zone are Mymensingh sales and distribution-2, Kishoreganj distribution division and Sylhet sales and distribution-1 and 3.

The units selected from distribution, northern zone are Rangpur, Pabna, Bogra and Sirajgonj electric supplies.

Comilla sales and distribution-1, Sholashahar and Kulshi Salem and distribution divisions of Chittagong and Patia distribution division are the four units selected from distribution, southern zone.

The meeting was informed that the revenue earning of PDB for the fiscal year 1996-97 was enhanced by Taka 72.32 crore than that of the previous fiscal year. PDB earned Taka 1630.56 crore in 1996-97 fiscal year.

During the period the system loss of PDB has been reduced to 20.29 per cent from 21.60 per cent of the previous year.



HNG Showcase organised Fashion Show '97 in the city recently

Konak murder case None arrested after 15 months

By Staff Correspondent

None was arrested in connection with Konak murder case even after 15 months. The Dhaka College student was gunned down in the city's Elephant Road area on April 21 last year.

Family members of Nafis Sadik Konak told The Daily Star that a case was filed with the Dhanmondi thana in that regard but, the case was transferred to the Detective Branch firstly and later to the Criminal Investigation Department (CID).

Abdul Hannan, an inspector of CID, is now investigating the murder case.

In a recent development, however, Faruq Hussain alias BD, an arrested accused admitted to DB about his involvement in the murder, DB on July 31 last arrested Faruq and other 10 accomplices of Joseph, one of the most wanted criminals, and recovered arms and ammunition.

Police said the gang stabbed Md Nasiruddin, 60, in chest and face as he refused to pay toll from his shop at Kawan Bazaar at about 10 am. He was immediately admitted to the Suhrawardy Hospital where he died at about 9 am yesterday.

Owner of a water tank

Microbus driver shot, vehicle stolen

By DMC Correspondent

An unidentified gang shot a microbus driver and fled away with the vehicle from Darus Salam Road under Mirpur thana in the city yesterday morning.

The driver, Bashir, 20, sustained serious bullet injuries in his chest and leg. He was admitted to the Dhaka Medical College Hospital (DMCH) at about 7 am and later shifted to the Orthopaedic Hospital.

Hospital sources said the gang of about five young men hired the microbus from Narsingdi at about 4:30 am. They assaulted and shot Bashir, a resident of city's Rayerbazar area, when they reached Darus Salam Road.

The attackers threw the injured driver out of the vehicle and drove off. Local people took Bashir to the DMCH immediately.

Injured businessman dies

By DMC Correspondent

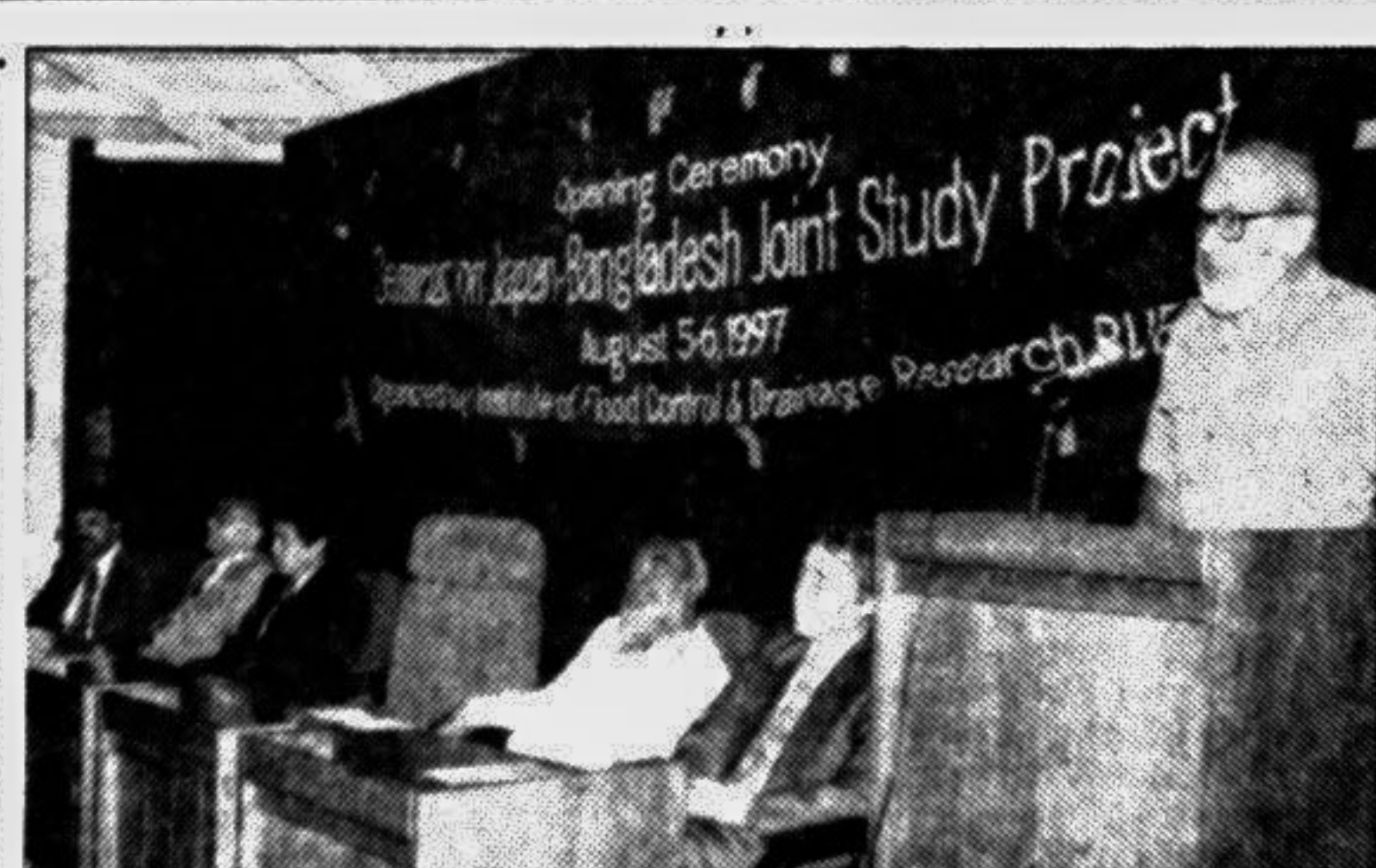
An elderly businessman who was stabbed by a gang of extortionists at Kawan Bazaar in the city Monday died at the Suhrawardy Hospital yesterday morning.

Police said the gang stabbed Md Nasiruddin, 60, in chest and face as he refused to pay toll from his shop at Kawan Bazaar at about 10 am. He was immediately admitted to the Suhrawardy Hospital where he died at about 9 am yesterday.

wholesale shop, Nasiruddin was a resident of Station Road in Tejgaon.

Nasiruddin's son, Faiz Ahmed filed a case with Tejgaon thana accusing three persons. Police said all the accused persons were the members of an organised gang in Kawan Bazaar area. However, no one was arrested till last night.

Nasiruddin's body was sent to the Dhaka Medical College Hospital for autopsy.



Prof Dr Iqbal Mahmud, VC, BUET, addressing the inaugural session of a seminar on 'Japan-Bangladesh Joint Study Project on Flood' yesterday at BUET Council Building.

Workshop on 'control of rice hispa' held

KHULNA, Aug 5: A day-long workshop on "the impact of integrated pest management, especially control of rice hispa," was held at Daulatpur Agricultural Training Institute (ATI) here today, reports BSS.

A report on recent investigation on rice hispa in Bangladesh was presented in the workshop, held under the auspices of Danish International Development Assistance (DANIDA). Five specialists on hispa from home and abroad, including Dr Ramaswami, Dr Steffen Johnson and Dr Pan-chagounder attended the workshop.

The workshop stressed integrated pest management for protecting crops from hispa instead of using chemical insecticides.

Mannan demands arrest of 'killer' of Juba Dal leader

BNP secretary general Abdul Mannan Bhuiyan yesterday demanded immediate arrest and exemplary punishment of those responsible for the killing of Juba Dal leader Mosharra Hossain in the city, reports UNB.

The Juba Dal leader was slaughtered by unknown assailants in the city's Paribagh area Sunday.

In a statement, Bhuiyan said Mosharra who came to the High Court for bail was brutally killed by the miscreants. "It proves that there was no law and order in the country."

The people who are seeking justice from the court being murdered on the streets, he said adding that the country has plunged into lawlessness.

Seminar on 'flood study project' begins

By BUET Correspondent

The inaugural session of a two-day seminar on "Japan-Bangladesh Joint Study Project on Floods" was held yesterday at the Council Building of BUET.

The seminar is being organised by IFCDR, BUET and sponsored by Japan International Cooperation Agency (JICA).

Prof Dr Iqbal Mahmud, VC, BUET, was the chief guest while Shuhei Takashashi, Charge d'Affairs, Embassy of Japan, attended the ceremony as special guest.

The seminar was also addressed by Prof Mozammel Hoque, Project Director, Prof Syed Mohibuddin Ahmed, Director, IFCDR, Morimasa Kanamara, JICA resident representative, and Prof H Nishimura, leader of the Japanese team.

In his speech, the BUET VC thanked the Japanese government and JICA for their financial support for this programme.

The study project was initiated after the devastating floods of 1988 and '89 aimed at having remote sensing technology for rainfall forecast, study of flash-flood mechanism, river morphology and flood plain zoning to protect crops from flood catastrophe.

A technical session began at the IFCDR building soon after the inaugural ceremony.