

Power Unto Itself: IMF Needs Reassessment

by Prof Jeffery Sachs

However useful the IMF may be to the world community, it defies logic to believe that the small group of 1,000 economists on 19th Street in Washington should dictate the economic conditions of life to 75 developing countries with around 1.4bn people.

days, without deep knowledge of the country's financial system and without any subtlety as to how to approach the problems.

Consider what the Fund said about Korea just three months ago in its 1997 annual report: "Directors welcomed Korea's continued impressive macroeconomic performance (and) praised the authorities for their enviable fiscal record." Three months ago there was not a hint of alarm, only a call for further financial sector reform — incidentally without mentioning the *chebol* (conglomerates), or the issue of foreign ownership of banks, or banking supervision that now figure so prominently in the IMF's Korea programme.

In the same report, the IMF had this to say about Thailand, at that moment on the edge of the financial abyss: "Directors strongly praised Thailand's remarkable economic performance and the authorities' consistent record of sound macroeconomic policies."

With a straight face, Michel Camdessus, the IMF managing director, now blames Asian governments for the deep failures of macroeconomic and financial policies that the IMF

has discovered. It would have been more useful instead, for the IMF to ponder why the situation looked so much better three months ago, for therein lies a basic truth about the situation in Asia.

There is no "fundamental" reason for Asia's financial calamity except financial panic itself. Asia's need for significant financial sector reform is real, but not a sufficient cause for the panic, and not a justification for harsh macroeconomic policy adjustments. Asia's fundamentals are adequate to forestall an economic contraction; budgets are in balance or surplus, inflation is low, private saving rates are high, economies are poised for export growth.

Asia is reeling not from a crisis of fundamentals but from a self-fulfilling withdrawal of short-term loans, one that is fuelled by each investor's recognition that all other investors are withdrawing their claims. Since short-term debts exceed foreign exchange reserves, it is "rational" for each investor to join in the panic.

Without wider professional debate, the IMF has decided to impose a severe macroeconomic

contraction on top of the market panic that is already foiling these economies. Consider the Korea programme for at least those parts that have been announced to the public.

The won has depreciated by around 80 per cent in the past 12 months, from around 840 to the dollar to a record low of 1,565 (Dec 10, 1997); this currency depreciation will force up the prices of traded goods. Yet despite that, the IMF insists that Korea aim for an essentially unchanged inflation rate (5.2 per cent in 1998, in comparison with 4.2 per cent in 1997). To achieve unchanged low inflation in the face of a huge currency depreciation, Korea will need a brutal monetary squeeze. And indeed this is just what the Fund has ordered. Short-term interest rates jumped from 12 1/2 per cent to 21 per cent on the signing of the programme, and have since risen further.

The Fund argues that these draconian monetary measures are "to restore and sustain claim in the markets" and "(to) demonstrate to markets the government's resolve to confront the present crisis". It is hard to see how recessionary monetary policy will restore

calm. Indeed the panic has so intensified since the signing of the agreement that Korean banks may now be on the verge of outright default. Just one day after the measures were unveiled, the 11th largest-conglomerate declared bankruptcy when Korean banks abruptly refused to roll over its short-term debts. In recent days more well-known local companies have gone under.

In addition to the rise in interest rates, the IMF is insisting that fiscal policy be tightened by 1-1 1/2 per cent of gross domestic product. On top of this, the IMF required that nine out of 30 merchant banks suspend operations. The IMF is aiming for Korean growth to fall to 2.5 per cent in 1998 from 6 per cent in 1997. But the projected slowdown may turn out to be the least of Korea's worries by next year, since the underlying macroeconomic measures could easily push the economy into outright contraction. None of this overkill makes sense for an economy (rightly) judged to be pursuing sound macro-economic policies months earlier.

A better approach would have been for the IMF to stress the strengths, not the weak-

nesses, of the Korean economy, thereby calming the markets rather than further convincing them of the need to flee the country. Months ago, when the financial crisis began, the Fund could have quietly encouraged Japan, the US and Europe to provide some credit support to the Bank of Korea. It might well have worked with the leading banks to encourage them to roll over their short-term debts without inflaming the panic. With appropriate confidence-building measures, Korea could probably have got by with a modest slowdown in growth, no credit crunch, and a realistic time horizon of a few years to complete its needed financial reforms.

In more than six dozen developing countries, the IMF is in a position to choose make-or-break financial policies. While its instincts are often correct, they can sometimes be wrong, with serious consequences.

In recent years, the IMF mishandled the Russian reforms (for example, by insisting for more than a year that all 15 successor states to the Soviet Union share a common currency, thereby delaying stabilisation and undermining the political support for reforms). In Bulgaria, the IMF signed a programme in July 1996 based on 2.5 per cent growth and 20 per cent inflation in 1997. Instead, Bulgaria has suffered an

outright collapse of GDP of more than 10 per cent, and inflation in the hundreds of per cent. The IMF (and others) failed to foresee the Mexico crisis in 1994, and the Asian crises in 1997.

Three general conclusions can be reached. First, the IMF is invested with too much power, no single agency should have responsibility for economic policy in half the developing world.

Second, the IMF's executive board should do its job of overseeing the staff, rather than simply rubber-stamp the staff's proposals. It is high time the board consulted outside expertise in the exploratory stages of IMF operations; it should also canvas international opinion about the origins and policy implications of the Asian crisis.

Third, IMF operations should be made public, so that professional debate and review can help ensure the highest possible professionalism of the institution, especially since (for all its faults) the Fund will surely continue to play an important role for many years in the future.

Courtesy: The Financial Times
The writer is Head of the Harvard Institute for International Development

Knowledge is Power: Do We Learn What We Need to?

by Kushal Ibrahim

We have to figure out what our students really need in their life, and try to provide that along with education in the core subject. If the students are joining the banks, government services, or NGOs, then why not equip them with some skill that might help them get, and excel in, those jobs?

WHEN Deng Xiao Ping, the deceased Chinese leader, was asked if he had ever received any university education, he answered, "I have learned from the university of life". Perhaps that is what all real universities should be: places where we can learn things to understand and live our life a bit better. But unfortunately, that does not seem to be happening in our bastions of higher education. In some cases, these revered institutions have become, to put it bluntly, places where students enrol to get a degree, and not knowledge or particular skills. And not always can one blame the students, because they actually do not find anything worth learning as far as their future job prospects are concerned.

The brightest of our youth spend (at least) four years studying in the universities, and the education here is supposed to mould their views and thoughts, and train them in certain skills, in such a way that they can find a place of their own in the long road in life that lays ahead, and simultaneously can constructively contribute to the development of our country. But is this really happening at

Dhaka University, for example, which is still the leading centre of higher education in our country. The range of disciplines that can be studied here is admirable by any standards anywhere in the world. But considering the requirements of our country and the prevailing job market, perhaps the time has come to rethink what should or should not be taught, and to what degree.

In the Science faculty of Dhaka University, the most sought after subjects that have job prospects are: Pharmacy, Computer Science, Biochemistry, Micro-biology and Applied Physics. It should not be a surprise to anyone, considering the employment situation. The students have to face the reality since they need jobs when they pass out, and our country needs efficient manpower, not uni-

versity graduates with skills that cannot be used here. One notable fact is our students' reluctance to opt for the more basic sciences: Physics, Chemistry, Zoology, Botany, Geography, to name a few. Interesting they might be to study, but the hard truth is that they offer few job opportunities. Apart from a few posts in the faculty itself, and some other well-paying jobs for the really lucky ones, the only real job opportunity is teaching in various colleges. So what good did it do for them?

But what will happen to those who do not want to go into teaching, or those whose results is simply not good enough? We generally find them working in the banks, government offices, NGOs, or trying for the BCS exam. And arguably in most cases, what they do in their later life bears no relation to what they learned while studying Physics or Chemistry. So what good did it do for them?

And will it be an overstatement to say that their years at the university have been a waste? I mean, one really does not need to learn thermodynamics or relativity to balance the ledger books of a bank or be a magistrate.

The same can be said for the Arts and Social Science faculties. How much of the knowledge learned from studying subjects like Bangla, Philosophy or Sociology — can the students implement knowledge in their later life? With all due respect to the disciplines and everyone involved with it, are Philosophy students providing us with new philosophies? Political Science students joining the ranks of political theorists? International Relations students? Creating new grounds in diplomacy? The probable answer is very few, if any. We could have ignored it if this happened only among a few students, but this is the case for

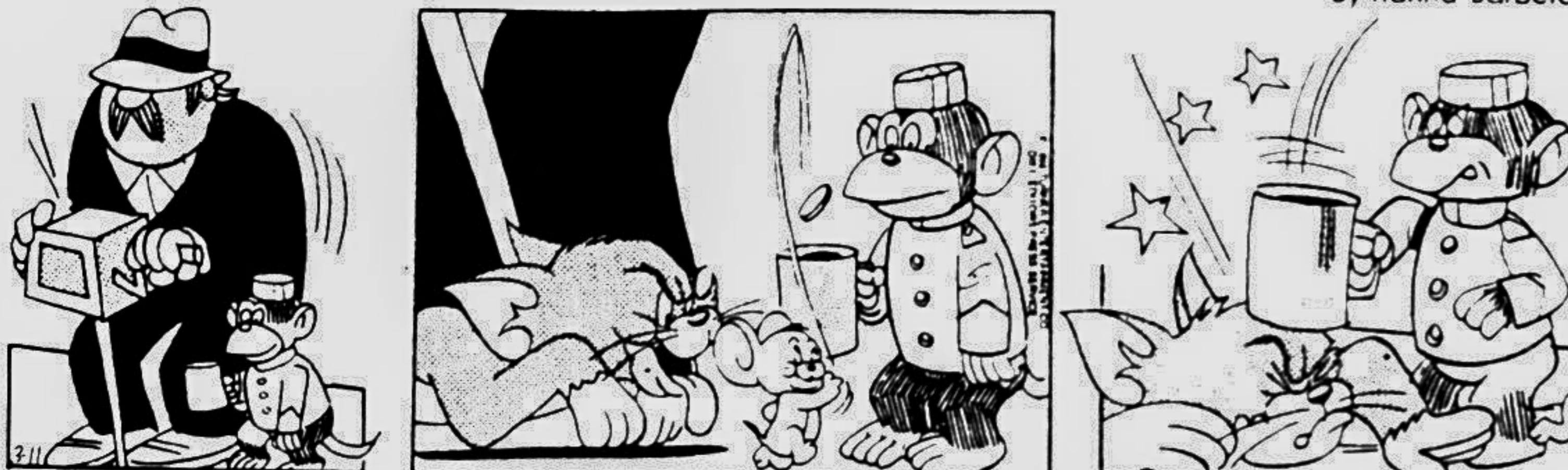
most students, and this gross wastage of resources of students, teachers and the country as a whole, is benefiting no one.

So now comes the question, do we just discard all these apparently "impractical" disciplines? Of course not. Whatever happens, we need them and will continue to need them. No nation can do away with learning the basics of pure Physics, and that goes for other subjects as well, however impractical they might seem to be in relation to our job market. But we also have to be realistic. We have to figure out what our students really need in their life, and try to provide that along with education in the core subject. If the students are joining the banks, government services, or NGOs, then why not equip them with some skill that might help them get, and excel in, those jobs?

Now, what skills are required in the modern job market?

There is also the question of

Tom and Jerry



Garfield ®



by Jim Davis

People greet New Year with great enthusiasm

The first day of the New Year was greeted yesterday by the people with great enthusiasm, looking forward to a better and bright time during the 1998, reports BSS.

This year, the New Year synchronised with beginning of the auspicious month of Ramadan but the preparations for the fasting did not dampen much the celebrations of the new year Wednesday evening and midnight.

Violence in UP polls condemned

Speakers at an anti-terror rally in Pirojpur on Tuesday strongly condemned violence in the Union Parishad elections and blamed the authorities for the deterioration of law and order, reports UNB.

The rally, organised by the anti-terrorism committee, was addressed, among others, by M A Mannan, Ali Ahmed, Faruque Sarder, Abul Kalam Akhand, Hamdu Sikder and Shahidul Islam Kismet with Advocate Shahidul Alam Mirro in the chair.

The speakers said the dis-

trict administration did not

take any step to contain vio-

lences which erupted during

and after the union parishad

elections in Pattiashali union under Sadar thana and several other centres.

They demanded exemplary

punishment for those responsi-

ble for attacks and counter-attacks on the supporters of two chairman candidates of Pattiashali union.

After the completion of the

polling, chairman-elect of the

Asadul Huq Swapan

came under attack by the sup-

porters of the defeated candi-

date on Dec 25, local people and

police said.

The occasion also coincided

with the weekend leading to

two-day weekly holiday and

this made people feel the advent of a relaxed new year.

Political parties took stock of

their activities in the preceding

year and mapped out strate-

gies for the new year. The busi-

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hoped for a better performance

in 1998.

The first day of 1998 began

on a joyous note as people spoke positive things

wishing others a good year.

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