

# Should Market Mechanism be Ignored in Asia?

by Dr Abdul Momen

*In business, in free market mechanism, there are always risks of investment. To avert risk, the investors, the borrowers and the financial institutions are required to play it safe. If they play safe, they are being rewarded with profits. If they do not play safe, they lose.*

RECENT crisis in Indonesia once again proves that an economy built on corruption, cronyism and civil-military dictatorship cannot sustain for long. The financial markets of Asia, namely South Korea, Indonesia, Thailand, Malaysia, and the Philippines nearly collapsed and their banks and conglomerates were shut down. Their currencies depreciated between 34 per cent to 80 per cent, and their stock market prices tumbled. They accumulated a huge external debt amounting to \$453b. More importantly, most of these foreign liabilities consist of short-term loans. Their combined GDP that was \$1073b in 1996 reduced to \$559b, more than half.

Owing to cash crunch, their governments had to cut-down their ambitious projects. This caused large-scale layoffs, price spiral and shortage of essentials that resulted in riots in many cities. Their decades of achievements and 'miracle of growth' were shattered overnight.

Mainly due to its strength to absorb shocks, Japan escaped an economic disaster. However, its banks are riddled with bad loans amounting to \$632b and its financial sectors underwent great strains and pressures in the recent days. The government allocated \$76b to sort out Japan's financial system and it arranged another \$23b to

enhance consumer demands. In the case of China, staggering \$200b bad bank loans and mounting corruption may spark another crisis within a year.

The problems of these financial crises, in addition to structural weaknesses and external factors, lie in the mismanagement of funds, lack of transparency, inadequate supervision, poor corporate governance, and investors' overconfidence and greed. The banking officials and financial institutions extended loans to the properties that were speculatively overvalued. There have been clear signs of asset price inflation throughout South Asia.

A few years ago, S&L disaster rocked the US largely because of asset price inflation, and the common taxpayers of America had to subsidise the corrupt and inept banking officials and investors.

In the late '80s, the United Soviet Socialist Republic (USSR) wiped out from the map of the world and dozens of newly independent states (NIS) came into being largely because of poor economic performance that was created by over-developed centralised bureaucracy under the Command system in the former USSR. Market mechanism was denied to play its proper share under the scissors of hordes of professional bureaucrats and party hierar-

chy. One fundamental cause of all these crises in corruption, plus lack of transparency and bureaucratic red tape. The officials and bankers that regulate and supervise banking and financial matters in Japan, South Korea, Thailand, Indonesia, the Philippines, China and to a lesser extent Malaysia are reportedly corrupt, and they are 'corrupt as a group. They ignored asset price inflation and adopted imprudent lending practices to have extra income on the side.

In South Korea, corrupt leadership lent \$6b to Hanbo Steel until it closed down. In these days IT, unfettered media coverage and free flow of investment resources, if our over-developed bureaucratic group ignore the writings on the walls, or try to hide facts, the fire breaks out quickly and once ignited, they spread like bonfire. Could a system of check and balance through elected a Board for the federal banks improve signaling tracks of impending fires?

In business, in free market mechanism, there are always

risks of investment. To avert risk, the investors, the borrowers and the financial institutions are required to play it safe. If they do not play safe, they lose. But nowadays, because of the IMF, and because of myriad government guarantees, such business risks of financial institutions are becoming history. In 1994, when Mexican financial crisis erupted, the IMF came for its rescue and salvaged the mismanagement of the officials and investors at the cost of common taxpayers. How long this business of salvaging big business based on personal contacts at the cost of common men will continue? Private external borrowings in the Asian countries become 'too big' and therefore, it became a public issue and the governments had to move in. But question remains should the investors suffer loss for taking risks, should they suffer for their callousness and greed, and should the officials suffer for their corrupt practices? More importantly, should the blood of the common people salvage the institutional investments? Question is: Do

we need an IMF to distort free market mechanism and encourage more bureaucratic red tape, more callous institutional investors, and more of group corruption? More precisely, up to what extent bailout packages are needed to safeguard public interest? Where do we draw the line?

It appears that as multiparty fragile democracies are being established in many developing countries, the political leadership by being inept, less developed and being vulnerable succumb to dual governments: 1) permanent civil-military bureaucratic government, and 2) political government. Being permanent and being united as a solid rock, the 'bureaucratic government' plays a more determining role in the crucial aspects of development or regulation and supervision of financial markets. The political government being less permanent and being constantly head-on collision with opposition parties generally succumb to day-to-day operations, supervision and regulations. Power corrupts absolutely and bureaucratic governments ei-

ther with 'chain responsibility' or with no personal accountability, in the process become highly corrupt and they manipulate the system to meet their corrupt needs.

A large proportion of the receipt of \$96b foreign lending to the Asian countries in 1996 may have been appropriated in illegal accumulation of wealth abroad by bureaucrats of various levels. Nearly 80 per cent bad and uncollectable loans of Bangladesh nationalised banks may have been shared and distributed within the borrowers, the bankers, the officials and therefore, there is hardly any effective strategy to recover the loans. Former Finance Minister Saifur Rahman attempted to publish the names of the defaulters but not the names of bankers and officials, who extended the bad loans. They lent money not on the basis of economic or market analysis but on the basis of their personal contacts and margins. The projects were over-priced beyond imagination and thus a part of the free money were used for conspicuous consumption.

However, if the economy collapses, the political govern-

ments would be removed hastily while the corrupt bureaucrats will continue to play more than its fair share. In various bailout packages, the offenders generally get recourse and escape punishment while the innocent, the common people, get further victimised.

There is no denying that Bangladesh has two governments: one bureaucratic and another political. Bureaucratic government being united as a solid rock with 'group unity' is more powerful to manipulate the affairs of the state. They are the ones who extended 'bad loans' to the corporations in the first place, and they are the ones that increased the 'cost of borrowing'. They are the ones who helped in topping the past governments. They are the ones who brief, contain and advise the political governments. They are the ones who keep the 'political leaders' in the 'glass jars' secluded from public in the name of security once they assume powers. General Yahya dismissed 333 corrupt officials and following the same line, the present government is trying to dismiss 4,000 officials. Reportedly 85 per cent officials of Bangladesh are corrupt and it's the fourth corrupt nation in the world. Unless the system of administration is democratised, all officials of responsibility are either politically appointed for a fixed term through public and parliamentary

scrutiny/hearing or elected directly, or alternatively, responsibilities were auctioned off to private corporations, these attempts will be temporal and not effective. Moreover, all assets of the corrupt officials should be auctioned publicly so that they cannot manipulate events through their illegal money.

When the disease was spreading and the economies were over-heating, the IMF neither could diagnose it nor could it predict the timing and duration of the crisis or crises. Now, however, when the market erupted, and the market mechanism is here to correct the imbalance and punish the defaulters for their poor judgements, the IMF comes forward to rescue the defaulters and thus to resolve the crisis. There is no doubt that the Asian Tigers will rebound soon with more vigor and vitality, and may be with more resilience and shock-absorbing capacity. But the question remains: should we allow the market mechanism to operate with its in-built countervailing forces and leave the system un-doctored and un-distorted by the IMF or similar institutions for the good of mankind?

The author was a Professor of Economics and Management in the US and currently working as an Economic Advisor to the Saudi government.

## LETTER FROM EUROPE

### The EU and its Unemployment Problem

by Chaklader Mahboob-ul Alam

*The major objective of the Treaty of Rome (the precursor of the EU) as stated in its preamble was "the constant improvement of living and working conditions for the peoples of Europe". The governments and the financial institutions of today's Europe should do well to remember this simple pledge and negotiate a new social contract with the workers.*

TRAVELLERS of Bangladesh origin already settled in the UK or other parts of Europe, are usually impressed by the courtesy and kindness of the Spanish immigration authorities. However, recently a woman officer of the Bangladesh embassy in Madrid, in an advanced state of pregnancy and without any knowledge of Spanish, failed to obtain a visa for her husband to accompany her on her first trip to Madrid. (After much coaxing from the ambassador, the Spanish authorities finally issued an entry visa to the distraught husband). How does one explain this apparent contradiction? Why does the Spanish immigration police treat the Bangladeshis with EU or US passports with politeness, while Bangladeshis with their national passports are prima facie looked at with suspicion? Well, the explanation is quite simple. Spain is trying to prove that it is a reliable member of the European Union and that it is capable of guarding Europe's southern frontiers (only a few miles from Muslim North Africa) against undesirable immigrants from the South. Why does Europe want to stop immigration from the South i.e., Africa and Asia? There are two basic reasons — one economic and the other cultural or ethnic (remember, Huntington's theory: now that Soviet communism is dead, the West's next natural enemy is Islam). Here I am going to address the economic aspect of the issue only and leave the other aspect for the next.

According to the major economic indicators like the budget deficit, the inflation rates, the exchange rates etc., the EU seems to be doing quite well. But the governments, the employers and the unions are completely baffled by one issue — unemployment. They are at a loss about finding an acceptable solution to this chronic problem.

The European Economic Community (the precursor of the EU), as its name indicates, came into existence basically for economic reasons. Its original members — France, Belgium, Luxembourg, Holland, Italy and West Germany — established this 'rich men's club' by the Treaty of Rome in 1957.

The primary objective was to establish a Common Market, where labour, capital and entrepreneurship would be allowed to move freely in such a manner that all economic barriers among the member nations would eventually disappear. In 1973, the UK, Denmark and Ireland joined the club. A few years later, Spain and Portugal were admitted as members. Only recently, Sweden, Finland, Austria, and Greece have obtained membership of the Common Market.

Actually, Europe's age-old dream of having a United Europe is about to come true — at least economically. After two major hot wars and one cold among the European nations (which unfortunately engulfed the whole globe), all within the time span of seventy-five years, projects are under way to unite twenty-six nations under the umbrella of the European Union. Eight years after the fall of the Berlin Wall, on December 13, 1997 at a summit meeting in Luxembourg, the Council of Europe, consisting of the heads of state and heads of government of member nations decided to start negotiations with Poland, Hungary, the Czech Republic, Slovenia, Estonia (all of them part of now dissolved Soviet empire) and Cyprus to join the European Union. Other five countries — Bulgaria, Rumania, Slovakia, Letonia and Lithuania — have been permitted to sit in a sort of waiting room for their turn to be allowed in. On March 31, 1998, it was announced that eleven countries have passed the Maastricht test and will be allowed to launch the common European currency (the Euro) as from January 1, 1999. Once the economic union of these twenty-six nations is achieved (not a mean achievement by any standard), the intention is to create a sort of political umbrella over these nations — be it federal, confederal or some other type.

Turkey, who is an important member of the NATO, and who has been knocking at the gates of the EU to be invited in for the last thirty years, has been snubbed in such a manner that it has provoked an angry remark from the Turkish Prime Minister that the EU is an exclusive Christian club. Turkey

has been given a set of conditions to fulfil before she can even apply for membership again.

Although, it is no doubt an ambitious project, difficult negotiations and real structural problems lie ahead. Who is going to pay for the huge cost of restructuring the economies of the new East European members? Will the rich members (who have their own problems) increase their contributions to the common kitty? (Actually, Germany is already trying to reduce her contribution). If the total amount for redistribution is not increased, then how will these enormous disparities be removed? Are we thinking in terms of second class? Even third class members in the same club? These are only a few of the many vexing questions. Even if we forget for the time being the new applicants (11), the biggest problem facing the current fifteen-member European Union is unemployment.

At the end of 1990, in Europe, there were approximately 12 million people without any employment. By the end of 1997, the figure had reached over 18 million. While Britain and the Netherlands have been successful in holding the unemployment rate (as a percentage of the labour force) under 7 per cent, France and Italy have unemployment rates of approximately 13 per cent, Germany has slowly reached an astounding 11.8 per cent (which means there are more than 5 million employed. Psychologically, it is a frightening figure because it is more than what it was immediately before the rise of Hitler). Spain, with 20 per cent unemployed can definitely be considered as the worst case. While in Japan and the United States, the rates are approximately 3.4 per cent and 4.7 per cent respec-

tively, the average EU (15 countries) rate is more than double (10.6 per cent).

In general, women, young people and men over 50, find it extremely difficult to get into the job market. In Spain, the unemployment rate among the youth has reached a disturbing figure of 41.9 per cent, while in Italy it stands at 33.5 per cent. Actually, it is generally accepted that in Spain and Italy if the unemployed youth did not enjoy the financial support of the family network, there would be social disorder and unrest. While approximately 48 per cent of the total European unemployed are without a job for more than one year, in Spain the figure has reached 53 per cent and in Italy 65 per cent. The Spanish situation is even more pathetic in another field. Only 7.5 per cent of the Spanish employers give any formal training to the employees, while 100 per cent of their Danish and 94.6 per cent of French counterparts offer training programme to their employees. This high difference has continued so long that by no stretch of the imagination can it be called cyclical. There are basic structural flaws in the system.

According to Professor Reich of Brandeis University, an optimum combination of business flexibility, labour agility and aggregate demand is necessary for the creation of jobs. Business flexibility means that the employer enjoys considerable freedom in hiring and firing employees, paying wages, having access to funds at low interest rates and marketing products wherever he wants at whatever prices he sees fit. This factor has been responsible for the creation of millions of jobs in the US. It has, at the same time been responsible for a drop in the real wages of workers (i.e.

real purchasing power) since 1989. In general, most European businessmen enjoy less business flexibility. There are strict government regulations regarding the employment contracts, minimum wages, number of working hours and severance pay. By and large the European governments also have so far played a rather passive role in the labour market. They have been busy protecting old jobs rather than creating new ones.

Labour agility means agility both in training and mobility: in the US and in the UK, private companies spend vast sums of money on training their workforce in new technologies. While in the US twenty per cent of the total workforce move every year in search of jobs, the European workers are not mobile — people do not want to move from one region to another within the same country, and much less from one country to another. Language plays an important role in this game. It is anachronistic that although theoretically political boundaries between different countries are coming down, in practice, the rise of regionalism is obstructing actual movement of labour from one region to another. An unemployed professional say, in Madrid will think twice before moving to Catalonia or Basque region because of the requirement to learn a different language.

Now without the third factor, i.e. aggregate demand, business flexibility and labour agility will not create many new good jobs. The rise or fall in aggregate demand is caused by private spending (individuals and businesses), government spending and net exports. In Spain, after a period of continuous fall in private spending, there are hopeful

signs that it has started picking up. Low interest rates and better employment prospects are encouraging greater consumer and business spending. The prolonged economic boom in the US and the high dollar are also helping the European exports.

Besides these three factors — business flexibility, labour agility and aggregate demand — there are others like globalization, new technologies and hard-won welfare benefits which are also affecting the job market. In recent years in the US many new jobs have been created but social inequalities have increased and the individuals have few social benefits. The US spends 15.4 per cent of GDP on social benefits while in the EU the figure is 26.5 per cent. In the EU, because of low birth rate, the working age population is declining yet more and more people are placing demands on the social security system — be it unemployment benefits or retirement pay. The situation may soon become unsustainable. On the one hand, the number of people who make contributions from their wages and salaries to the social security system is declining, while because of high unemployment and demographic changes the dependent population is increasing. If this trend continues for long, the social security system will go bankrupt and that will be the end of the welfare state.

So how do you strike a balance? How to devise a system under which the essentials of a welfare state will be maintained without straining the resources of the country, which will protect the needy and the weak, will offer training and work to the unemployed and will encourage the unemployed to seek work actively (because in some European countries the benefits are so generous that the unemployed prefer staying on the dole and moonlighting from time to time); and above all, will create new jobs. Now this is a tall order.

There has been considerable criticism from the left that the EU authorities have merely paid lip service to the problems of unemployment. The Maastricht Treaty laid down strict requirements as regards inflation, interest rates, government deficits, budget deficit, etc. Why did the treaty not include unemployment rate as one of the criteria to join the Euro (the proposed single European currency)? They say, if in Spain the economy is growing at the rate of over 3 per cent per year,

if the average company profits in 1997 increased by over 20 per cent and if the stock market is breaking all records — how is it possible that the unemployment rate continues at the unacceptable level of approximately 20 per cent of the active population?

Actually, in recent weeks, there have been demonstrations in France and Germany by the unemployed against this state of affairs. In Spain, the Government has been jolted out of its complacent attitude by a surprise and noisy intrusion of the unemployed demonstrators into one of capitalism's most sacred institutions: the Madrid Stock Exchange. Evidently there is no magical solution to such a complex and lingering problem.

It seems that finally the EU governments have come to realise that the Maastricht Treaty, the introduction of the Euro, the common agricultural policy, the structural funds are far from a macro-economic point of view. But from a common worker's point of view, what really matters is whether he has a job, whether his children get proper schooling and medical care and whether he can count on enough old age pension when he retires. The question is whether under a democratic system, the governments or the employers or the other social agents acting alone can solve the problem. In France, a law has been passed reducing the work week to 35 hours. In Germany and Spain, considerable pressure is being placed on the governments to reduce the work week to 35 hours by law. In Germany, Spain and Italy, the unions are recommending the abolition of regular overtime payments by big organisations.

The answer, in my opinion, is that under the current circumstances, at least in Spain whose rich are getting richer and a certain segment of the population is being pushed to the margins of society (actually the process started under the socialist regime) the government has no option but to seize the initiative. Real concrete action plans in collaboration with the regional governments, the employers and the unions (not an easy task), set up adequate control mechanisms to monitor the results and when needed take corrective measures — in short, play an active 'hands on' role in the labour market.

The Spanish government has recently published (March 31, 1998) Employment Plan, which is certainly a step in the right direction. According to Prof. Modigliani (the Nobel laureate), the main reason for the current unemployment situation in Europe is not the lack of labour agility but the lack of investments and entrepreneurial spirit. The problem is because of Maastricht's restrictions, none of the EU countries can individually increase investments. That is

why Prof. Modigliani feels that the EU itself should draw up an investment plan covering the whole of Europe. Without new investments in the globalised economy of the 21st century, Europe will lose its competitive edge. If it were to happen, the unemployment problem will most likely get worse not better.

In the UK, the Labour Government has embarked on a programme of welfare reform. It is a bold idea. Instead of playing a passive role or providing unemployment benefits to every Tom, Dick and Harry (which in any case has been subject to much abuse), use those funds to play an active role in the labour market by training the unemployed, setting up a network of child-care centres for working mothers, or giving incentives to employers to create part-time jobs. It is relevant to mention here that in Holland, part-time jobs now total 38 per cent of all jobs.

In the EU taxes on labour have risen from 35 per cent in 1981 to 42 per cent in 1997 and are not showing any sign of decreasing. While I do not propose an outright tax cutting policy (which is incompatible with the welfare system), it is necessary that the experts should look into the possibility of pruning some of the expenses. In this context, the governments should also not be afraid to raise the issue of deregulation, because in my opinion, some deregulation is better than a stagnant labour market.

One of the remarkable characteristics of the European scene is that by and large most of the workers and their representatives understand and accept that the entrepreneurs have to make a profit to stay in business. Most businessmen also understand that the workers are entitled to earn a fair salary and social protection. What, in my opinion, the workers do not understand is the capitalist's need to increase his profit continuously while the workers' compensation remains the same or less (because of a fall in the real income). They are also at a loss to understand how the same economic system which apparently cannot guarantee sufficient social protection to the poor and the needy, can allow the speculators and 'financial engineers' to make fortunes overnight. On the other hand, again in my opinion, what some of the capitalists do not appreciate is that a persistent unemployment rate of close to 20 per cent of the working population will sooner or later bring social disorder which will not benefit anybody. After all, the major objective of the Treaty of Rome (the precursor of the EU) as stated in its preamble was "the constant improvement of living and working conditions for the peoples of Europe". The governments and the financial institutions of today's Europe should do well to remember this simple pledge and negotiate a new social contract with the workers.

### Muktijuddha Jadugar had no contact with Anjan Datta

It has come to the notice of the Trustees of the Muktijuddha Jadugar a news item informing that the Indian artist Anjan Datta will be performing in Bangladesh to raise fund for the Museum. So that there is no confusion in the general public and our well-wishers we would like to clarify that the Liberation War Museum had no contact with the said artist regarding this either verbally or written. The Museum is in no way involved in inviting or organising the concert of artist Anjan Datta. It may be noted that the Liberation War Museum is the outcome of citizen's effort and is run by funding from the general public and all Fund Raising programmes are organised and supervised directly by the Liberation War Museum and its parent organisation Muktijuddha Smriti Trust, says a press release.

### Demra thana clash victim dies

**By Staff Correspondent**  
A young man who was shot on Tuesday at the city's Demra area succumbed at the Dhaka Medical College Hospital (DMCH) early yesterday.  
Hospital sources identified the dead as Saiful Islam, 22, son of Ishak Munst of East Jurain.  
Saiful received bullet wounds during a clash between two local groups following a dispute over a piece of land at about 9:30 am Tuesday, hospital sources said.  
He was rushed to DMCH where he succumbed to his wounds at about 3 am yesterday.  
Demra police last night could not confirm if anyone was arrested in this connection. The body was sent to DMCH morgue for postmortem.

### Unregistered vehicle owners to face action after Apr 31

**By Staff Correspondent**  
Legal actions will be taken against the motor vehicle owners who will not have registration certificates of their vehicles after April 31.  
A PID handout said yesterday that the owners of the vehicles should transfer their ownership by the deadline and collect registration number instead of garage number.

### Metropolitan 65 more new fire stations to be set up: Minister

Home Minister Major (ret'd) Rafiqul Islam, Bir Uttam, said yesterday that the government has planned for setting up 65 more new fire stations in the country to fight against fire and accident, reports BSS.  
The government has taken up necessary measures for setting another 37 fire stations under the directive of Prime Minister Sheikh Hasina, he said while inaugurating the Fire Service and Civil Defence (FSACD) week '98 at Fire Service and Civil Defence Training Complex, Mirpur here.  
The Home Minister said that the construction of 53 more fire stations is in final stage. He said the government is committed to modernise and make the department update and service oriented within the shortest possible time.  
On compilation of the projects, the total number of fire stations will rise to 278 adding the present number of 123 fire stations. He said, it will take time to collect modern equipment for fire fighting due to financial problems of the government.  
The Home Minister urged the fire fighters for covering the lackings of equipment through proper training, efficiency and courage there is no alternative to training and hardwork, the minister added.  
He said the members of the department are assigned for ensuring safety and security of the people during war time.  
The minister instructed the fire service and civil defence

### PM to open Nat'l Nutrition Week Apr 23

Nation is going to celebrate 'National Nutrition Week' for the first in the country from April 23-29, reports BSS.  
Prime Minister Sheikh Hasina will formally inaugurate the week on April 22 at 4:00 pm at Osmani Memorial Hall.  
Today a meeting of the Nutrition Week Celebration Committee was held at the conference room of the Ministry of Health and Family Welfare with its Secretary Mohammad Ali in the chair.  
The meeting elaborately discussed about the celebration of the week from national to thana level throughout the country.

### JS told \$190m scheme to ease traffic jam in city taken up

The government has taken up a plan costing 190 million US dollars to ease traffic jam in the capital city, parliament was told yesterday, reports UNB.  
The project is at final stage, said Home Minister Rafiqul Islam replying to Barrister Nazmul Huda (BNP-Dhaka).  
The project includes construction of two to three flyovers, footpaths, development of 20 link roads, government of rickshaw road network, development of bus-truck terminals, and expansion and development of city roads.

**Garfield®**  
by Jim Davis

Panel 1: Garfield: "N N N N G G G H H H H H H H H... A N E E E E E A R R R R R O G G G H H H..."  
Panel 2: Garfield: "YAHOO! COME TO PAPA!"  
Panel 3: Garfield: "GET THE NET, GARFIELD! GET THE NET! FOR THE FISH... OR FOR YOU?"  
Panel 4: Garfield: "VERY NICE! MANTZELLE! OODLES OF LOVE! HE'S GOING BACK INSIDE NOW!"  
Panel 5: Garfield: "A MOMENT LATER... THE GATES OF THE VILLA SWING OPEN ELECTRICALLY..."  
Panel 6: Garfield: "HEAR RUBY'S... SHE'S ARRIVING... BRAU KREUZER!"

### Obituary

Begum Jamila Akhtar Huda, a teacher, died on April 7. She was 77, says a press release. She was buried at the Banani graveyard on April 10 after Juma prayers.  
She left behind 4 sons, 2 daughters and a host of relatives and well-wisher to mourn her death.