

On cutting lending rates

What would be the right approach?

EARLY this week, there were news reports suggesting that a move has got underway to reduce the lending rates of the banks. Bangladesh Bank Governor Fakhruddin Ahmed while meeting the chief executives of local commercial banks called upon them to decide on their own as to how they would like to reduce the interest rates. Finance Minister M Saifur Rahman has been a known advocate for bringing down the costs of lending which are higher in Bangladesh compared to what the neighbouring countries like Pakistan and India are operating with. It's also common knowledge that the country's chambers and business bodies have consistently voiced the demand for a reduction in borrowing rates arguing that the higher rates were a disincentive for investment. This paper, too, has editorially pressed for a cut-back on lending rates whenever the opportunity presented itself to do so.

The issue is nothing new. And, there is no second opinion on the question that the interest charged on term loans which is between 13 and 16.5 per cent and that on export credits ranging between 7 and 10 per cent will have to be reduced to bolster investment. But the million dollar question is: how we do it?

Let's see what the banks say. Commercial banks, both in the public and private sectors, have often been asked by the government to lower their lending rates. The private banks' response has been that since they have to collect funds from the depositors on high interest rates, they lack maneuverability to cut back on lending rates. The nationalised commercial banks (NCBs), on the other hand, creak as they do, under the burden of bad loan portfolio, are diffident in lowering their interest rates.

In other words, the banks are looking outward for a solution in the form of an intervention from the government without accepting their part of the responsibility. Two approaches are being talked about: one, reduce the deposit rate to bring down the lending rate; and two, lower the savings instrument rate to reduce the lending rate. We know that the government had earlier reduced rates on both deposits and savings certificates. Another round of reduction in this two elements seems to be in the offing. The earlier cut-backs did not yield dividends in terms of reducing the lending rate or raising the level of investment nor are they likely to do if resorted to again.

The issue here is the margin between the average deposit rate and the average lending rate which has to be explained in terms of the efficiency or deficiency factor. In our context, the margin between deposit rate and lending rate is 7 per cent which is unusually high -- to be of any good to investment. It has to be around 3 per cent. The cost of running banks and that of intermediation in particular are very high in Bangladesh. If these could be reduced with banking efficiency and managerial skill then there wouldn't have been the need for cutting back on deposit and savings instrument rates.

Private banks have cut back on their operational costs by computerisation. Their efficient management, on the whole, is yielding rich dividends. With the range of profitability they enjoy, they should be able to reduce the lending rates. And, so far as the NCBs go, the huge burden of classified loans they carry bears testimony to their track-record of mismanagement. Most of them face liquidity crisis from time to time. Over-staffed, their overhead costs are higher than they can afford. The government keeps borrowing money from them as do the losing state-owned enterprises (SOEs). For a change though, the government's public borrowing could be reduced this time by virtue of the real prospects for IMF and World Bank funding.

On this optimistic note, the issue of reducing interest on deposits and that on savings certificates should be addressed with due deference to the interests of the depositors and savers. The dilemma of conflict of interests between the depositors and the lenders is largely a self-created problem in our context. Why should the depositors, fixed income group savers and pensioners be punished because of the fault of others. Does it not make a strong case for banking reform?

WASHINGTON CONSENSUS-1

How free is free trade?

A K N AHMED

ONE key element of Washington Consensus is free trade. This is being preached to other countries by successive American Presidents, including President George W Bush himself, take for example, President Bush's recent Coast Guard Academy commencement address. In it he charged that the refusal of European Union to certify import of new strains of genetically modified crops had a moratorium on such crops, thus discouraging African nations from adopting and benefiting from them. Earlier in March 2003 US trade representative Robert B Zollick was less delicate when he suggested in a speech that Mr. Bush's opponents of corporate-led globalisation might have intellectual connection with terrorists.

While Mr. Bush's statement may be partially correct let us try to find out what USA itself is practicing in promoting free trade which is supposed to alleviate sufferings of the people in poor countries and being good for wealthy and impoverished countries.

Example #1: In the West African countries of Niger River's northern Delta, cotton is the main cash crop, and cotton farming provides employment to more than two million people and provides sustenance to several times that number. But with world cotton price down ten per cent in 2003 from last 30 years low in 2002, people can hardly survive. Extended families of 20 to 30 are reported to be trying to live on annual earnings of less than \$2,000.00. Schooling and minimum healthcare have become unaffordable luxuries for these people. Meanwhile, half a world away, in the Mississippi Delta American growers are thriving. At first glance the reason seems obvious. In Mali farmers hitch their one bladed plow to oxen and take two weeks to till 10 to 20 acres of plot and the cotton is eventually picked by hand. In contrast, the Mississippi Delta growers tend giant spreads of 10,000 acres or more in air conditioned tractors

Example #2: The North American Free Trade Agreement (NAFTA) was signed in an effort to stimulate Mexican economy through free trade. But export of sugar, one of Mexico's main crops, is severely restricted by US quota that limits imports to only 7,258 tons of raw sugar. This quota system was introduced since 1796 to protect American sugar producers and to reward them for large contribution to

The so-called Washington Consensus has four key elements. They are: Free trade, free market, democracy, and development. These ideas are sponsored by G7 countries and detailed programmes are administered mainly by the IMF and the World Bank. In this series of four brief write-ups, to be published on four consecutive Fridays, starting today, these four main elements are discussed for the readers.

using a global position satellite system to determine the proper amount of fertilizer to apply to sprouting seedlings. Then there are expensive fertilizer and defoliants. In all it costs 82 cents to produce a pound of cotton in Mississippi versus only 23 cents in Mali.

This raises another obvious question. Why the Americans are expanding their acreage under cotton, while Malians are trying to survive even though they have comparative advantage? The answer is subsidies -- subsidies provided by US Government to its farmers while Malian farmers have none to look after them. In 2003 US

political campaigns. Since then this practice is going on and while American sugar consumers are paying far times more than the international price of sugar a cartel of small number of US sugar growers are enriching themselves. *Forbes* magazine once estimated that a single family the Fajuls of Palm Beach reaps more than 65 million dollars a year as a result of quota for sugar. Furthermore, sugar industry in Florida, which is larger than that in any other state, makes even less sense environmentally than economically to produce sugar. It depends on publicly built system canals, levees and pumping sta-

tion. Fertilizers from the sugarcane fields choke the everglades, sugar growers under a special exemption of labour law, import Caribbean labourers to do the grueling and poorly paid work.

On the other side of the picture, not only Mexico but Dominican Republic and other few countries with ideal climate for growing sugarcane are unable to grow and sell sugar to USA and are experiencing political turmoil and economic collapse. Heavily subsidised US corn exports are also threatening to drive Mexican farmers off their land and into dangerously hot trucks of smugglers who ship illegal immigrants across the border.

Example #3: The case of Brazil provides further example, unlike Cuba, which is not allowed to export sugar at all to USA for political reasons, Brazil, the largest country

ment panel has found the United States in breach of obligations under the treaty and has urged US to come into compliance. But US has not complied. **Example #5:** In early 1980s Bangladesh government formulated and enforced a fairly progressive drug policy to make medicine affordable to more people. Since then Bangladesh government has withstood the pressure of multinationals, particularly the United States, restricted import of unnecessary costly brand name medicines and encouraged local producers to produce medicine at a much cheaper price and increase their market share and export abroad. In 1992, the World Bank which, together with the IMF, administers provisions of Washington Consensus, asked the government to remove restrictions on import of

drugs and allow foreign companies to import their brand name medicines freely. This was despite the fact that such imports encouraged smuggling of medicine to India and enabled foreign companies to transfer their funds through overpricing of imports. As against this, when some Americans, being unable to afford the inordinately high price of medicine started to get the same from Canada at much cheaper price in the recent years, US Drug Administration stated that such imports were illegal and it was planning punitive action against the "offenders."

Example #6: Before World War II the United States bought 40 per cent of vegetable oil it needed from developing countries. After the war, it protected its oil seed market, -- for example, by establishing price support for soybean. Today the USA is the world's largest exporters of oil and oil seeds.

Example #7: After World War II, American farmers, using price supports, "left over from the new deal, produced vast wheat surplus, which the US exported at concessional prices first to Europe and then to Third World countries. These enormous transfer of cereals to the South institutionalised during the 1950s and 1960s by US food aid continued during 1980s and 1990s as the USA and the European community vied for markets, each outdoing the other in subsidising agricultural expenses.

Example #8: The United States had long had a programme of allowing special tax treatment on profits (hidden subsidy) from certain kinds of exports. In response to European complaints the World Trade Organization has twice found this treatment in violation of WTO rules and directed the USA to alter the practice. Yet to date, the practice has not been changed and these items of export from USA are enjoying indirect subsidies.

Example #9: According to a study of Cato Institute some years ago, corporate welfare programme cost taxpayers roughly 75 billion dollars annually. In the name of keeping American technology competitive and to promote export and market opportunity a number of companies like IBM, Intel, Hughes Aircraft, Archibolds, Midlands and a number of other fortune 500 companies receive the subsidy. Even McDonald was dished out \$195,000.00 a year to keep its competitive edge on sale of chicken nuggets abroad.

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A K N Ahmed is the former Governor of Bangladesh Bank

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President signed into law a piece of legislation that largely increased the previous year's \$3.4 billion in subsidies to America's 25,000 cotton farmers. As a result, some of these families are expected to receive one million dollars in subsidies alone. Such actions will encourage farmers to produce more and more cotton depressing its world price and impoverishing further families in West Africa.

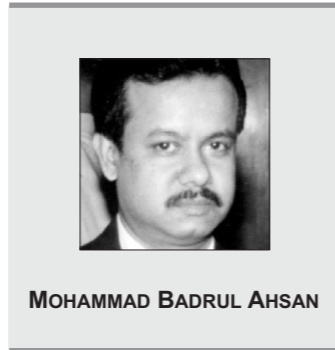
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Laden and Bush



MOHAMMAD BADRUL AHSAN

American people and the rest of the world. Don't underestimate his loyalty to those who tell him what to do. He will go to any length to protect them.

Richard Cohen knows more than that. In 1998, a letter was written to President Clinton arguing that America should abandon containment, "removing Saddam Hussein and his regime from power." Ten of the 18 signatories of that letter--including Rumsfeld and Paul Wolfowitz -- are now in the Bush administration. Cohen has learned

They have produced more impressive results in the past weeks. Uday and Qusay were killed and buried along with Saddam's 14-year old grandson. Now the posse is tightening around the top prize. The US soldiers are scouring Iraq with retouched images of their best game. Soon Saddam might get caught, and George Bush will have produced more results.

But if Bush is in a hurry, here is an idea. Take Dara Singh, the wrestler-turned-actor, from India and then put him on display as Saddam

At least it will put to bed the biggest double-cross of this century. If you really think, the Iraqis have suffered for the sins of Osama bin Laden. It wasn't easy to justify a war on Iraq between the Gulf War and September 11. It wouldn't have been easy to invade Iraq if the destruction of Twin Towers in New York hadn't mobilized the world sympathy in favour of the Americans. But what happened to Laden? Where did he vanish?

If I remember, there was a price on his head also. A close blood of

distant bully many miles away across the ocean. He was never a threat to the American security, and he never wished to be.

He just wanted to be a Middle East monarch, a dynastic ruler, who enjoyed sitting at the head of a long table with his cabinet, talking tall with flourish of his hands and smile on his face. He liked to dress in Arab kaffiyeh and American cowboy hat, a strongman whose weakness was his own identity. He could never figure out if he was a leader, father, ruler, stooge, visionary or clown.

ism. Suddenly, Saddam Hussein is the number one enemy, who is worth four billion dollars every month, one or two dead soldiers every day and worldwide condemnation.

It doesn't make sense unless you indulge in one of the conspiracy theories. The US wants Iraqi oil. The US wants a weak Middle East for the security of Israel. The US wants this, and the US wants that. True, the US wants something, something more than the freedom and democracy for the Iraqi people. But nothing explains the cameo role Osama bin Laden has played in this whole shebang.

Unless you think Osama bin Laden is the alter ego of George Bush. Laden started what Bush has vowed to finish. What Laden did, if he at all did it, Bush has done many times more, blowing many more buildings and many more lives. Bush has magnified the tragedy Laden initiated.

Perhaps Osama bin Laden's biggest legacy is George Bush himself, the scowling howling statesman, who believes that he can terrorise terrorism. Somewhere in the arcane world of common sense, you can sense that there is something common between two of them. Both failed to fathom what is common knowledge to rest of us. Hatred begets hatred, which perpetuates the cycle of violence and vengeance.

If we talk about borrowed intelligence, wherever you are hiding George W. Laden, Osama bin Laden lives in the White House.

Mohammad Badrul Ahsan is a banker.

CROSS TALK

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from his colleague Bob Woodward that Rumsfeld argued at the first Cabinet meeting after Sept. 11 that the United States should go to war on Iraq.

So the war on Iraq was premeditated. The decision to go to war was taken before the cause of action was there, before Saddam was believed to be on the verge of obtaining weapons of mass destruction, before Saddam was believed to have link with a man whom the world came to know as Osama bin Laden. Bush and his company were waiting to come to power and produce results.

Hussein. He will be a perfect Saddam look-alike with minimum retouch. Have a special state-of-the-union address and announce Saddam's capture. If and when people find out the truth like they did about the uranium from Niger, blame it on CIA, the British intelligence or, even better, on Dr. Kelly, the British scientist who is dead. Tell the nitpicking journalists in another press conference in the White House that in your line of work, it was important to produce results on the basis of information that was there. So what if it was Dara Singh instead of Saddam Hussein!

Saddam turned in Uday and Qusay for their enemy for a reward of 30 million US dollars. May be another friend, relative, or admiral will turn in Saddam Hussein for 25 million US dollars. But why hasn't anybody snitched on Laden? Why hasn't US issued his retouched images and engaged its troops to hunt him down?

Which leads to the question, how did Saddam Hussein become more wanted than Osama bin Laden? After all Laden is blamed for the atrocious act, which has made the Americans upset. He dared them on their own soil, while Saddam was a

Osama bin Laden is different. Here is a man who wants to change the world, a man who has vowed to put fear into the hearts of infidels on the other side of the Atlantic. He is the man who is blamed for blowing the Twin Towers and attacking the Pentagon. It was to capture him and his band of brothers that the coalition forces went to Afghanistan and Tony Blair made White House's wish Downing Street's command.

Why is this success in the search for Laden? Why is this let up on him? It is difficult to understand this part of the script in the unfolding drama of US action against terror-

ism. Suddenly, Saddam Hussein is the number one enemy, who is worth four billion dollars every month, one or two dead soldiers every day and worldwide condemnation.

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Sweetened sixteen!

DR. FAKHRUDDIN AHMED

writes from Princeton

THE smoking gun for President Bush's State of the Union plug for the invasion of Iraq was the now famous, saccharine-sweetened sixteen words: "The British government has learned that Saddam Hussein recently sought significant quantity of uranium from Africa." Let us not be swayed by the White House line that the President is not a "fact-checker," because prior to his address to the nation, the White House website had displayed a photograph of the bespectacled President going over his State of the Union address "line by line!" Let us analyze the words instead.

First of all why cite the "British Government" as the source of intelligence when the President has the world's most sophisticated intelligence agencies such as the CIA and the FBI, at his disposal? Secondly, what does "significant quantity of uranium" signify? Students of statistics know that "significant" means that one can vouch that the information is not random noise or an outlier, with a certain degree of confidence. Finally, the use of the telltale verb "learned" makes the sentence not hype, not exaggeration or misconstrued intelligence, but a flat-out lie!

Here's why attributions are

important. There are the repetitives such as "police said," "according to," "claimed," "stated" and "commented," which are boring and neutral. Then there are cleverly disguised attributions such as, "Police said Mr. Smith claimed to have an alibi," which casts some doubt on Mr. Smith's innocence. Rephrased to "Police learned that Mr. Smith had an alibi," suddenly Mr. Smith is completely innocent! Similarly, in the President's State of the Union address a claim was transformed into a fact. The President could not cite any of American intelligence agencies because the CIA did not believe it was true. That is why the British became the stars of the Presidential speech. It would have been lame to say, "The British say they have heard that Saddam has been shopping for uranium from Africa." That is not the kind of language that whips up war frenzy. Insert the word "learned" then the sentence becomes alarming -- and a lie! Because, when we learn something, we learn a fact. A "learned" person is loaded with factual knowledge. Leave it up to a comedian to explain things succinctly. Joked *Tonight Show* host Jay Leno: "President Bush lied about invading Arab territory. President Clinton lied about invading Jewish territory! (Monica Lewinski is Jewish.) Jay Leno also has some advice for Saddam Hussein: if he manages to hide

LETTER FROM AMERICA

Talking of strange things, last month there was a shake up in The New York Times, because one of its reporters was found to have been making up stories and publishing those lies in America's most prestigious newspaper. His name? Jayson BLAIR! Eric Blair ("George Orwell"), Jayson Blair, and Tony Blair. Could it be in the name?

where Iraq's weapons of mass destruction are, the US will never find him!

President Harry Truman had coined the term, "The Buck stops here," meaning that the ultimate responsibility lies with the President. President Bush tried his hardest to shirk responsibility for the Niger-uranium fiasco. First, National Security chief Condoleezza Rice forced CIA chief George Tenet to take responsibility. Next she forced one of her subordinates to do the same. It was only after the President's conservative supporters began clamouring for the President to be a man and own up, that he did so in a very general way, "I take responsibility for everything I say and do." The President's detractors say that he only took responsibility after running out of people to blame! They point out that while the President is very reluctant to take responsibility for his own mistakes, the

White House viciously smears the credibility of the President's critics. Last month, when an irate American soldier in Iraq told ABC television's news correspondent Jeffrey Kofman, "If Donald Rumsfeld was here, I'd ask him for his resignation," in a perfect example of "kill the messenger" the White House leaked to the Press that Mr. Kofman is gay, and more damning, a Canadian! As though Mr. Kofman's sexual orientation and nationality made the American soldier's outburst invalid!

Doubts about President Bush's intellectual capacity to handle the Presidency that had surfaced after his election, but was submerged after September 11, are beginning to resurface. Is he really in charge, or have his intellectual superiors such as Deputy Defence Secretary Paul Wolfowitz of Arabia" hijacked American foreign policy? It is common knowledge that suffering an inferiority complex a C student

(Bush) has a tendency to show off his intelligence to an Ivy League Professor (Wolfowitz) by obeying him. According to his critics, Dr. Wolfowitz, who has family ties with Israel, constantly checks with the Israeli government what is good for America! In the White House meeting the day after September 11, Wolfowitz alone urged the President to attack Iraq, something he had been advocating since 1992, while everyone else was preoccupied with attacking Afghanistan and Al Qaeda. Afghanistan posed no threat to Israel; according to the Israelis, Iraq did.

After September 11 there was a possibility that America would take a cold hard look at why America is hated by so many in the Muslim and non-Muslim world. Moderate Jewish journalists like *The Washington Post's* Richard Cohen began pointing the finger at Israel. The Zionists in America and the ones

imported from Israel took charge immediately and went on the offensive. They fed America lies such as, "they hate us for our democracy, our affluence, our culture, because we exist, and nothing we can do will change the minds of these barbarous murderers." The Jewish American journalists run the gamut from the blatant such as *The New York Times'* William Safire to the subtle Tom Friedman, who says pretty much the same things as Safire does, but with enough sugarcoating to give one diabetes! (Isn't it strange that all the living Nobel Peace Prize winners including former Presidents Jimmy Carter and Nelson Mandela opposed the Iraqi war; only the two Israeli citizens, Shimon Peres and Elie Wiesel supported it!) The latest lie that the Zionists are feeding America is that democracy in Iraq will change the Arab and the Muslim world. Isn't it remotely possible that the forcible establishment of an

alien, western Jewish entity in the midst of the Arabs is the reason for turmoil in the Arab world in the first place? And is it not a tad hypocritical for the western world to label Israeli terrorism as "self-defence," and Palestinian resistance as "terrorism"? America should realise that it is not the Muslims, but the Israelis who are siphoning off America's economic and military resources, moral and political capital, and are primarily responsible for America's declining standing in the world.

British Prime Minister Tony Blair has found out (his soul-mate President Bush may find out the same later), that it is much easier to lie to the world than to one's own citizens. Opinion polls now show that most Britons believe the BBC more than they believe the Prime Minister. The Tories, too, are hypocritical. After all, more Tory MPs voted for the Iraq war than did Labour MPs. If the Tories were in power, they would have done exactly as the Labour Government did, for no British government will dare to go against the advice of the most famous Tory, Winston Churchill: "Never go against the wishes of the United States." What is left unsaid is, if they did go against the wishes of the US, in world affairs Britain would be relegated to be status of a Portugal!

President Bush sometimes does strange things. For instance, last month after the British Open Golf

Championship he invited the unexpected winner, Ben Curtis, to the White House. Curtis, ranked number 396 in the world before the British Open, had never finished within top ten in any tournament. Curtis's victory in the British Open, a tournament that specialises in neutralising the talents of the likes of Tiger Woods, was a fluke. Everyone, except Bush seemed to have realised that! It is one thing to invite established superstars like Woods, or this year's US Open Champion Jim Furyk, or Master's Champion Mike Weir (Of course, Weir would never be invited to the Bush White House, because he is a representative of the Iraqi war-opposing, dreaded Canadian!), quite another to honour a blimp on the sports radar screen, like Ben Curtis. In their next tournament after the British Open, which concluded on August 3, while Furyk and Woods finished first and second respectively, Curtis finished a more familiar 61st! Talking of strange things, last month there was a shake up in *The New York Times*, because one of its reporters was found to have been making up stories and publishing those lies in America's most prestigious newspaper. His name? Jayson BLAIR! Eric Blair ("George Orwell"), Jayson Blair, and Tony Blair. Could it be in the name?