

Lessons from the seventies

ZIAUDDIN CHOUDHURY

IN August 1975 a new phenomenon was introduced into Bangladesh politics when the civilian politician anointed as president by the military coup leaders declared martial law and assumed the title of chief martial law administrator. The ramifications of this martial law on the civil administration, however, would not be apparent until a couple of months later. In the aftermath of the gory November coups, the then chief justice was named both president and chief martial law administrator. But the civilian leadership of the martial law hierarchy would stop at the president. Down the line, the three armed forces (Army, Navy, and Air Force) chiefs were the deputy chief martial law administrators, and the three GOCs were zonal martial law administrators for the three divisions then. The civilian façade notwithstanding, the

country was under martial law as the parliament was dissolved, martial law regulations were promulgated, political activities were banned, and a number of politicians were chased and put behind bars under charges of corruption. This was a military regime, albeit milder than what the country had experienced in Pakistan days. Unlike previous martial laws, people did not witness khaki clad soldiers parading the streets, nor were they seen picking up people and carrying them away in trucks. This was, nonetheless, a martial law government, and none felt the presence of martial law and its effects more than we who headed district administration that time. As was the case with every military government in the past, the expectation of the people was raised when the government firmly declared war on corrupt politicians, and promised

to fight corruption at all levels. True to its word, the government acted promptly by apprehending a number of ex-members of the parliament, some of them ministers, and other political elements, and, for good measure, rounding up rogues and anti-socials at the district level. To deal with the mounting number of corruption cases, besides promulgation of Martial Law Regulations (MLR), the government also set up district committees (in all 19 districts of that time) that comprised the district magistrate (deputy commissioner), superintendent of police, a member of the armed forces representing the zonal martial law administrator, deputy superintendent, special branch, and the district public prosecutor. At national level, a security coordination and control cell (I cannot recall the exact title) was created headed by General Ershad with DGF,

IGP, Director General NSI, and a joint secretary of the Ministry of Home Affairs as members. This cell was responsible for coordinating the overall government effort in national security, and guiding the law enforcing agencies, including the district committees, in probing allegations of corruption, and apprehending and prosecuting suspects. The district committee focused on cases of alleged corruption that originated from three sources; cases initiated by the local police on some prima facie charges; cases referred by the Home Ministry for further investigation; and cases brought to the attention of the committee by public through mail. It was also responsible for referring cases to the national cell for clearance in cases that were to be tried under martial law regulations instead of civil laws (penal code). The daunting tasks

that the district committee faced were several. The first task was to deal with the torrent of letters and petitions, mostly anonymous, against a majority of the local MPs, political leaders, UP chairmen and members, and some government officials. In Noakhali, where I had the privilege of working in such a committee, the allegations ranged from plundering of relief materials to stealing of works program funds and other public funds and, more importantly, the storage of automatic weapons and ammunition. Since the letters were mostly anonymous, prima facie, we did not know if the accusations were true, and worth investigating. The decision, therefore, was to pick up some recurring allegations that were very grave in nature, such as hoarding of arms, against any individual. To hasten the process, the armed forces representative in our commit-

tee decided to lead the investigation himself. The major found the individual, after several hours of walking in a remote char area, in a mosque. He was nearly eighty and almost blind. In another allegation of plundering of relief goods by a political worker, the officer found the culprit to be a twelve-year old boy. We soon came to realize that the quantity of petitions against an individual did not necessarily establish the offense. Our second major problem was garnering enough evidence in cases where the suspects had already been nabbed, particularly those who were apprehended on "reputation" of corruption. Detention under Special Powers Act was easy, but prosecuting them in a court, be it civil or military, required evidential material to be presented, but they were not easy to come by. This would be further complicated by limited investigating resources at

hand, since our local police was already burdened with increasing demands for maintaining security in the countryside. A third, but very annoying, problem was the poor quality of investigation, some of which was deliberate as we had in our midst some truly bent investigating officials. But an equally difficult challenge was the lack of skilled investigating officers who could provide the prosecution the needed support with their reports. In many cases, the reports that were sent to the central cell would be returned with comments that the cases be further investigated. A fourth hindrance was granting of bail by the judge court or high court to arrested individuals. The investigating officer would argue that individuals freed on bail interfered with witnesses, making it difficult for him to produce a watertight case. But even without bail, it was not possible to keep

an individual under detention for a prolonged period, unless it was approved by the Home Ministry. As we enter into a renewed battle against corruption in the country, I thought it would be relevant to share with the readers my personal experiences, albeit these were acquired a distant three decades ago. The writer was Deputy Commissioner of Noakhali; 1975-78.



No justice

HUSAIN HAQQANI

REALITY is catching up furiously with those who believe that Pakistan's principal problem is a poor international image. The world can hardly be expected to admire a country where, in addition to frequent terrorist attacks and violence, the executive branch of government succeeds in sacking three chief justices in less than a decade. Apolitical Pakistani professionals and technocrats often join the establishment in arguing that if only everyone highlighted the positive, things would look good and the flaws and weaknesses of the Pakistani state would somehow disappear. But how can anyone find anything positive in General Pervez Musharraf's sacking of Supreme Court Chief Justice Iftikhar Muhammad Chaudhry, the latest assault on an already weakened and doleful judiciary? Here are the facts as an outsider would see them: Pakistan's army chief, who took power seven and a half years ago after sacking an elected prime minister because the prime minister wanted to replace the army chief, has now "suspended" the country's chief justice. The chief justice was allegedly involved in misconduct, just as the sacked prime minister termed "corrupt" and "undermining national security."

Earlier, the sacked prime minister had got rid of another chief justice by getting supporters of the ruling party to storm the Supreme Court building. And the army chief who removed the latest chief justice had earlier got rid of another chief justice by insisting that the chief justice and his fellow judges swear an oath of loyalty to him before the court could decide the constitutionality (or otherwise) of the army chiefs' coup d'état. How many countries in recent times have a track record like that? General Pervez Musharraf appointed Justice Iftikhar Muhammad Chaudhry as chief justice almost two years ago and clearly found nothing wrong with him at that time. But Justice Chaudhry proved to be a maverick, all too willing to take cases that the government did not want heard. He gave judgments that made life complicated or plain embarrassing for the military-intelligence bureaucracy (such as the one relating Pakistan's "disappeared.") This unprecedented event -- the firing of the chief justice followed by keeping him incommunicado -- proves that regime survival has trumped national survival under Pakistan's authoritarian rulers. The result has been the erosion of all Pakistani institutions, including the army, which has lost effectiveness through politicization. The uproar resulting from the removal of the chief justice of Pakistan comes on the heel of a burgeoning loss of credibility in Pakistan's status as a frontline American ally in the war against terrorism.



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Hoping against hope

My little son asks me simply why Sheikh Hasina and Khaleda Zia demand early election? Do they want to preside over the destruction of our country once again? These are the questions I can't answer, and neither, I think, can anyone else.

ANAM A CHOUDHURY

IT had to be done, and it has been. The torch has been passed on to a group of sophisticated technocrats. They appear to be determined to rid the nation of its most corrupt ministers, politicians, and bureaucrats, and to revitalise the country's economy. The government of Dr. Fakhruddin Ahmed sounded to make every effort and use every means to put the democracy back on the track by ensuring free, fair, and credible election. Although the overwhelming majority of this country share the view of Winston Churchill who said that democracy would never be a perfect system, but none of the other systems history has known have proven to be better, voters are really dismayed with the corrupt realities of adverse party politics. Since winning independence in 1971 political parties of Bangladesh have proved themselves master at self-inflicted wounds. Both the Awami League and the BNP governments failed to modernise the economy and secure economic growth comparable to that of our neighbours. Although the government changed hands every five years, for the last fifteen years, and no

democracy in our country is still in a real mess. Perhaps the most spectacular illustration of political demagoguery is offered by the BNP government of 2001-2006. Powerful political actors of Begum Zia's government turned a responsible democratic system into an irresponsible elective dictatorship that then governed in such a way as to create an injurious political business cycle that not only hindered the long-term prospects for sustainable economic growth, but also allowed subversive organisations to threaten the survival of the state and the democracy itself. People do not respect law when the top leadership sadly sets a bad example. When the government ministers and MPs don't respect law themselves, how can we expect civil servants and government officials to do it? In a courageous initiative, the government of Dr. Fakhruddin Ahmed is taking on corrupt politicians, bureaucrats, and industrialists, and is determined to enforce the rule to ensure that everyone, rich or poor, powerful or weak, is equal before the law. The chief adviser Dr. Fakhruddin Ahmed produced in his speech a dutiful laundry list of ministers and politi-

cians who raked in big commissions and kick-backs from foreign and domestic investors. The corruption was so massive and rampant that it was actually hurting the economy. It is widely believed that some of the senior ministers' greed impeded the foreign investment in our power sector. It appears that caretaker government is too well aware that there are so many powerful entrenched people on top who would violently defend their financial interests which are associated with corruption. However, they are not above law. Obviously, there is something of a dilemma in judiciary's position as both upholders of law and order system and protector of the rights of the individual against that very system. Interestingly, British Supreme Court justice, Lord Denning, the Master of the Rolls, once went so far as to say that keeping some innocent people in prison was preferable to undermining confidence in the legal system. In many third world countries, riots and mass unrest have always been dealt with by the armed forces, but deployment of armed forces for domestic law enforcement isn't very popular in the liberal democratic countries. Moreover, military training is geared to fighting battles not to chasing criminals. So far, the government's crusade against crime and corruption met with a lot of interest and approval from the people at large. Chief Adviser Dr. Fakhruddin is echoing what people seemed to

be thinking, commented a western diplomat. But ordinary people also expect the government to monitor price scene carefully. If the past is any guide, unchecked rise in prices of essential goods, shortage of food and fertilizer may easily damage the image of government. Trade, commerce, and business are very important for any country. The government should help and encourage business community to promote bilateral trade with the neighbouring countries. Leaders of both the BNP and the Awami League governments lacked a clear and sensible idea of their priorities. They were unable to address one of the biggest lacunae in our growth process -- the virtual exclusion of the agriculture sector from the country's increased prosperity. It requires no great insight to realise that still 65 percent of our workforce is dependent on agriculture while agriculture's share in GDP is steadily shrinking. Bulk of our water resources is wasted and government is yet to addresses the problem of irrigation. Ironically, the vast majority of our farmers still live below the poverty line. According to the Environmental Working Group, a Washington lobby outfit, last year the US doled out more than \$12 billion in subsidies to its farmer, while the Europeans paid in subsidies \$53 billion to encourage their farmers to produce more. Strangely enough, many people expect Dr. Fakhruddin Ahmed

to become a genuine reformer and he should be free to think the unthinkable, and will do necessarily painful things that may upset some people and enrage most politicians, however for the good of our country. This government is probably well placed to make the radical changes the country so badly needs. Perhaps, the caretaker government realises that Bangladesh Biman needs money from government exchequer to carry passengers while private carriers need passengers to make money. Widespread corruption, high taxes, red tape, continuing subsidies to declining state-owned industries and a reluctance to sell off state assets is needlessly holding back our economic growth. My little son asks me simply why Sheikh Hasina and Khaleda Zia demand early election? Do they want to preside over the destruction of our country once again? These are the questions I can't answer, and neither, I think, can anyone else.

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Monetary contraction and growth

The latest indications regarding the volume of exports, imports, and investment are not very encouraging. Unless the government takes some urgent measures to improve the situation we shall have a rather ordinary year ahead. This will make poverty alleviation that much harder to achieve; many poor people will have to wait longer for a remission of their misfortune.

MA TASLIM

QUITE contrary to what most people would assume to be the case, the central bank of Bangladesh has actually followed a policy of restraining the growth rate of the economy. It is almost two years now that Bangladesh Bank made the decision (or the decision was made for it) to switch to a contractionary monetary policy. The CEOs of all commercial banks were instructed to raise the interest rates only weeks after they had been publicly rebuked by the then Finance Minister for charging too high interest rates on loans. Having made the (according to many, wrong) decision, Bangladesh Bank did the only right thing it could do. It stuck by its new policy. Monetary policy should not be tinkered with every now and then as its effects might take more than a year to eventuate. The ostensible purpose of the monetary contraction was to reduce (or at least not increase)

the supposed inflationary impulse, which was running at 6.2 percent at the time. The Bank felt that the rising inflation was due to excessive demand and hence needed monetary discipline. Although the inflationary tendency at the time was not due primarily to demand pressures, the policy did yield the anticipated result; it contained inflation. The latest inflation figures suggest that it has not risen much more than half a percentage point over the level it had attained in April 2005. On a point-to-point basis the inflation rate has actually declined. It was a reasonably good achievement on the inflation front, but the important question is: what did it cost the economy? A well-known tool of short term macroeconomic analysis, "Phillips Curve," says that a reduction in inflation can be achieved only at the expense of lower output (growth). Inflation, being a monetary phenomenon, can be always brought down, given sufficient time, by a monetary squeeze.

Such a squeeze that manifests itself in rising interest rates increases cost of funds and thereby reduces aggregated expenditure, particularly investment expenditure. This helps to cool off the economy; investment and output (growth) fall. Employment also declines or does not increase as much. This is the principal real cost of monetary contraction. Much of the lost output and employment would have accrued to the poorer section of the community; they are particularly hard hit by a monetary contraction. Bangladesh Bank is a bit reluctant about admitting that it has instituted a monetary contraction; it favours the term "cautious" to describe its monetary policy. It points out that there has been no contraction in money or credit supply. Monetary data show that there has been indeed no reduction in the growth of private sector credit, and hence Bangladesh Bank is entitled to claim that it has

not squeezed credit supply. However, credit supply is not a true indicator of money market conditions or the monetary stance of the central bank, since it ignores the demand side entirely. The money market would be slack with a credit growth of 19 percent (the actual growth in 2005-06) if the demand growth was only 15 percent, but it would be tight if the demand growth were 25 percent. In the former case, Bangladesh Bank would be executing an expansionary monetary policy resulting in a reduction in the interest rates, whereas in the latter case it would be executing a tight monetary policy with rising interest rates. Hence, a more reliable indicator of the money market condition is the interest rate. Most central banks these days use the interest rate as the target variable of monetary policy as money or credit has been found to be quite unreliable. When they want to tighten the money market they attempt to raise the interest rate. This is the principal transmission channel of monetary policy. The intent of Bangladesh Bank's monetary policy is very clearly reflected in a range of interest rates such as the rates on treasury bills and government bonds of various maturities, repo

and reverse repo rates and rates on bank advances. These rates have all risen steadily since March 2005. The 28-day Treasury bill rate has risen by 2.62 per cent while the reverse repo rate (1-2 days) has risen by 2 per cent between March 2005 and December 2006. The rate on bank advances has risen by 1.67 per cent between March 2005 and September 2006. These are very substantial increases in the interest rates and doubtless indicate a steady tightening of the money market. This policy-induced monetary contraction has no doubt helped in keeping a lead on the inflation rate, but it has also dampened business enthusiasm to invest. Monetary brakes were activated when the economy was palpably on the threshold of a 7 percent plus economic growth. Business confidence was high and private investment was booming. Even major foreign investors were keen to invest in the country despite all the adverse publicity regarding corruption and political bickering. The monetary contraction must have sent a clear message to private business about the central bank's intent regarding the future course of the economy. This must have cooled off their enthusiasm and thereby reduced business activities. The economy, thanks to a

buoyant private sector, attained a growth rate of 6.7 percent (2005-06) when it should have achieved well over 7 percent. The effects of monetary contraction have been now further accentuated by the unfavourable circumstances of the last several months. Although the Bangladesh Bank governor has boldly predicted a growth rate of 7 percent or higher for the fiscal year 2006-07, it is doubtful that the economy can maintain the growth momentum already achieved. The latest indications regarding the volume of exports, imports, and investment are not very encouraging. Unless the government takes some urgent measures to improve the situation we shall have a rather ordinary year ahead. This will make poverty alleviation that much harder to achieve; many poor people will have to wait longer for a remission of their misfortune. The author is Professor of Economics and Chairman of Bureau of Economic Research, University of Dhaka.