

Tight versus easy money

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MOAZZEM HOSSAIN

THE present generation open economy approach to macroeconomic management in more developed and developing nations alike prefers monetary policy interventions over fiscal policy mechanisms. The upper hand of monetary policy over fiscal has been mainly acquired through the works of the so-called "Chicago School" led by Professor Milton Friedman. The open economy framework and the advantage of the monetary policy time lag have certainly won the hearts and minds of finance ministers or treasurers all over the world, in particular the OECD nations. The monetary policy stance has two mechanisms: tight money supply or easy supply of money. Under a tight monetary regime, the

central bank (independent or other wise) intervenes in setting the interest rate (price of money) at a relatively high level in order to bring down or dampen demand for money at a desired time. The other side of the monetary policy coin portrays the opposite; the bank sets the rate at a relatively low level to encourage borrowing and investment. Alternatively, the central banks like to take the opportunity of adopting a so-called "open market operation (OMO)," through which the bank sells or buys securities in order to contract or expand money supply respectively, once again, at a desired time. The purpose is simple, either to increase the rate of interest, or bring down the rate. In other words, the instruments used by the banks to intervene under a certain monetary regime have an immediate impact

on the macroeconomic management of an economy. One may, however, ask what was the major outcome of all this? The answers are very complex, and certainly not easy to illustrate within the space allowed here. Having said that, one can identify three major outcomes/objectives (or mixtures) of such monetary policy stances: arresting inflation, creating employment and achieving sustainable growth. Let us take a look at each of them separately. Arresting inflation Inflation targeting appears to be very attractive to most western economies in recent years. What does it mean? It means that the central bank targets inflation to keep it within a range, for example, 2 to 4, or 3 to 5 percent, and so on. The major purpose of the target is

to maintain stability in the movement of prices in the short to medium terms. In this environment, the application of interest rate instrument (high) can make an immediate impact on arresting price increase through reducing demand for money, in other words, making money more expensive for the borrowers. Thus, inflation is checked or kept at a desired level.

Employment growth

To create more and more employment is the major objective of a modern economy for achieving a sustainable improvement in living standards. The students of macroeconomics know it well that, at the end of the day, the economies want to reach full employment, which is also regarded as the "natural rate of unemployment." Full-employment rate varies from country to country, and within a country, over time. Some economies accept 5 percent rate of unemployment as the full-employment rate, others may accept this at a much lower level. Within a country, the full-employment rate can vary over a period of time, and always tries to improve the structural side of unem-

ployment (structural unemployment improves with improvement of the technological and skill levels over time). All these need investment and, as mentioned earlier, the interest rate is the main determinant of investment. Since, the tight or easy monetary policy determines interest rate, creating more and more employment generally depends on easy money (monetary expansion).

Achieving higher growth

Sustainable growth is the ultimate desire of a nation with a view to improving living standards further, and to alleviate poverty within the shortest possible time. Since employment creation is the major source for attaining higher growth from the macroeconomics point of view, more and more investment is required for higher growth. Certainly, a tight monetary policy will not prepare a nation (with high rate of interest) for further investment, at least on the domestic front.

The case of Bangladesh

In view of the above, how has Bangladesh been doing in recent years? A piece by MA Taslim, on

"Monetray contraction and growth," printed in this daily on March 18, has made it clear that "it is almost two years now that Bangladesh Bank made the decision (or the decision was made for it) to switch to a concretionary monetary policy."

This piece further argues that, due to this contraction, the central bank (Bangladesh Bank) knowingly restricts economic growth when one can observe that inflation, over the last two years (point-to-point), has declined by about half a percent. The piece by Professor Taslim clearly suggests that the time has come for the central bank to formulate its monetary policy more towards easy money for encouraging further growth.

While one agrees with the conclusions of the above piece at this time of strong growth (rate of growth in the range between 6 and 7 percent), however, one must be very concerned about the way the commodity market has been behaving lately, particularly of the essential goods.

Moreover, it is not certain when this is going to end. On the politi-

cal front, the present establishment under the emergency rule apparently has no enemy, however, their major enemy now is the prices of essential goods (short term?), for that matter, the erratic commodity market on the economic front.

It is clear that a trade-off took place between politics and economics (corruption busting vs. economic growth) in the post-11 January period. Politically or economically, is this the time for easy money for higher growth?

In conclusion, before the central bank changes its mind on the money market, it must not turn a blind eye on the commodity market. While, for the sake of higher growth, easy money is needed, one must take a close look at the inflation level now.

It does not matter whether it is a short-term phenomenon or a case of easy money backed by favourable monetary indicators such as short-term interest rates or healthy stock-exchange indices.

There is no point in having double-digit growth with double-digit inflation. This will not only increase poverty to the level of a

calamity, it will also help distributing it in the short run. Monetary expansion cannot be a solution in the present context, while the economy is, in fact, in transition politically.

However, there is a case for targeting inflation when the present erratic price fluctuations come to a halt. Moreover, the government must, via its economic ministries, work out a roadmap for microeconomic reforms, such as improvement in productivity for expanding growth.

For example, first, the draining of electricity, by one-third, in the name of system loss cannot be acceptable anymore; second, the ports cannot be left in the hands of politicians under a political government; third, further integration of the economy with the outside world is required: transit, FTA and so on. These, however, are the issues for another day.

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Fiasco in Middle East



MOHAMMAD AMJAD HOSSAIN

THOUSANDS of anti-war people around the United States came out in the streets on March 17 to raise their voice of protests and demonstrate against the continued war in Iraq which started when the US-led coalition forces invaded Iraq four years back, on March 20, 2003, without provocation or a UN mandate. In Washington DC, 20 thousand turned up, braving

freezing cold, to mark 4 years of invasion of Iraq, while President Bush, as usual, was enjoying a holiday at Camp David. The war in Iraq has entered its 5th year. It has resulted in the death of more than one hundred thousand innocent Iraqis, including 34000 in 2006 alone, according to the UN Assistant Mission report, and more than two million Iraqis have fled their homes. This is the largest exodus in the Middle East since the expulsion of Pales-

tinians from their homeland by Israelis, following the unilateral declaration of independence in 1948. The Palestinian refugee problem was an inescapable outcome of the UN's plan for partition of Palestinian territory into separate Jewish and Arab states. The Arab state never came into being.

The situation in Iraq has been going from bad to worse since the sectarian strife began in 2004. According to one estimate, two million out of 26 million Iraqis have fled Iraq since the violence flared up. Another two million have been internally displaced.

It is really painful to leave one's home and hearth. Iraqis, particularly the Sunni sect -- the minority community -- have no other option but to leave their own country as a result of the atrocities being committed by Shiite dominated forces in Iraq. Most Iraqis have fled to either Jordan, or Syria or Lebanon to save their lives. According to an estimate by the UN, about two million people took shelter in Jordan and Syria.

Both Jordan and Syria are economically poor countries. The influx of Iraq refugees to Jordan and Syria would certainly be an

economic burden for them.

According to Voice of America, the living conditions in Jordan are deplorable. Jordanian journalist, Rana Sabbah, told VOA that "the international community has not done enough to help the Iraqi refugees or Middle Eastern countries that are struggling to host them."

America, ironically, gave asylum to only 200 Iraqis. Unless the UN High Commission for Refugees initiates humanitarian efforts, the lives of the refugees in Jordan and Syria would be at stake.

As one of the wire services report indicates, some Iraqi women have taken up prostitution in Syria, which is a slur on human civilization. This is the direct result of the illegal invasion of Iraq.

Meanwhile, the invading country, America, agreed to resettle around 7000 Iraqi refugees. The Bush administration has also committed \$ 18 million aid to UN High Commission for Refugees for their rehabilitation in Jordan and Syria. This is one-third of the total amount requested by the UNHCR.

Since the US should be held

responsible, logically, for the unprecedented massacre, the United Nations should ask it to compensate for the human tragedy by providing shelter and food for Iraqi refugees. The Jordanian journalist also told VOA that many people she interviewed thought that America should be morally and legally responsible for the refugees.

On the other hand, US soldiers continue to die from roadside bombs and sniper fire. More than 3200 US soldiers and 800 civilian contractors have lost their lives, as of February. A congressional research service says that the cost of the war in Iraq will exceed \$ 456 billion in September 2007.

Iraqis are questioning the purpose of the US mission in Iraq. The US congress and a majority of Americans are demanding a definite timetable for withdrawal of US troops. As against this bleak backdrop, the Bush administration and supporters of the war are resorting to giving the last, desperate, rationale for staying in Iraq: to prevent the terrible aftermath that will occur if our forces are withdrawn.

As of now, the Bush administration has failed to sell the rhetoric

on Iraq. According to latest polls, three-quarters of those polled said that the number of deaths, both American and Iraqi, is unacceptable. This trend of public opinion goes against the Bush administration.

As the US debate on surge of troops to Iraq continues, the US's ally, Great Britain, has decided to move in another direction. Prime Minister Tony Blair announced recently that 1,600 of the 7,100 British troops would return to Britain in the coming months. The move is seen as being part of a broader exit policy of the British, but the British premier is of the opinion that it reflects improvement of the situation in the southern part of Iraq where British troops are based.

Two weeks back the House of Representatives passed a resolution admonishing the president for sending additional troops to Iraq, while the Senate failed to pass a resolution to bring back US troops.

However, the Democrats in the House of Representatives will use a wartime spending bill to block increase of troops. Representative John Murtha, who chairs a subcommittee that oversees defense spending, said that Democrats



would amend a supplemental spending bill for increased levels of training, equipment, and downtime for combat troops.

This is intended to make it impossible for the president to move additional troops. The President's hands would be tied. Therefore, he would be forced to accept the limitation, or reject the funding for war.

As I mentioned, there has been tremendous pressure on the economies of two poor countries in the

Middle East because of the Iraqi refugees. Western countries, particularly the US, may soon come under pressure from the UN to share the cost and admit more refugees.

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Challenging corporate control of water

BOBBY RAMAKANT

PEOPLE in Bangladesh and around the world are drawing attention to the global water crisis -- and promoting solutions that ensure that water is a public good, not a commodity to be bought and sold. Corporate accountability and public health advocates are raising awareness and concern about the increasing corporate control of water.

March 22 marks the United Nations' World Water Day. This year the theme of World Water Day is "Coping with Water Scarcity." By 2025, the United Nations anticipates that two-thirds of the world's people will struggle to find water. Access to water is projected to be one of the dominant

factors in global conflicts during this century.

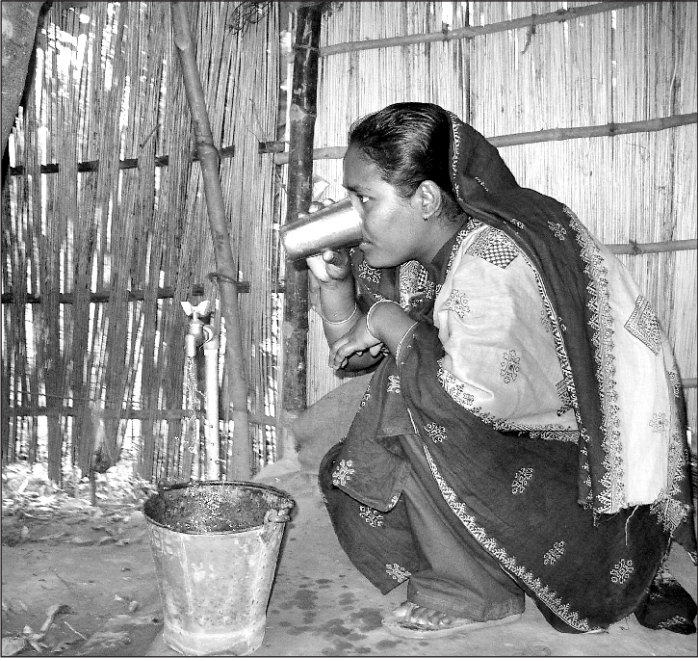
"Corporations are contributing to, and then profiting from, the global water crisis," said Kathryn Mulvey, Executive Director of Corporate Accountability International. She stressed further that: "One of the greatest threats to people's access to water today is that corporate use of water is often prioritized over people's daily use."

As water becomes more precious, corporations like Coke, Pepsi, Nestlé, Suez and Veolia are increasingly trying to control and profit from it. Ironically enough, at the same time, these corporations are trying to portray themselves as "improving" people's access to water.

Ramon Magsaysay Awardee

(2002) and noted human rights' activist Dr. Sandeep Pandey says that: "Equity and rights, cultural and ethical issues are essential, to be addressed when dealing with limited water resources. Imbalance between availability and demand, the degradation of groundwater and surface water quality, inter-sectoral competition, interregional and international disputes, all center around the question of how to cope with scarce water resources."

Each year, more than 1 billion of our fellow human beings have little choice but to resort to using potentially harmful sources of water. This perpetuates a silent humanitarian crisis that kills some 3900 children every day, and thwarts progress towards achiev-



ing the Millennium Development Goals (MDGs). The consequences of our collective failure to tackle this problem are the dimmed prospects for the billions of people locked in a cycle of poverty and disease.

When people don't have access to safe water, the health impact is devastating. According to the World Health Organization, every year more than 3.4 million people die as a result of water related diseases, making it one of the leading causes of disease and death around the world.

The root of this underlying catastrophe lies in these plain, grim facts: 4 of every 10 people in the world do not have access to even a simple pit latrine, and nearly 2 in 10 have no source of safe drinking-water.

To help end this appalling state of affairs, the MDGs include a specific target (number 10) to cut in half, by 2015, the proportion of people without sustainable access to safe drinking water and basic sanitation.

In addition, the UN Millennium Project Task Force on Water and Sanitation recently recognized that integrated development and management of water resources are crucial to the success, or failure, of all the MDGs, as water is central to the livelihood systems of the poor.

Kofi Annan, former UN secretary general, also stressed on integrated approaches to sustainable development. Kofi Annan said: "We shall not finally defeat Aids, tuberculosis, malaria, or any of the other infectious dis-

eases that plague the developing world until we have also won the battle for safe drinking-water, sanitation and basic health care."

As natural rights, water rights are usufructuary rights (water can be used but not owned). People have a right to life and the resources that sustain it, such as water. The necessity of water to life is why, under customary laws, the right to water has been accepted as a natural, social fact.

That is why governments and corporations cannot alienate people from their water rights. Water rights come from nature and creation. They flow from the laws of nature, not from the rules of the market.

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IN FRONT OF THE BOX

Spare a thought for the coach

PAUL MASON

THE tragic death of Pakistan coach Bob Woolmer will have cast a pall over all the squads and support staff in the Caribbean as it has done for many of us watching the World Cup.

He was well known to many from his days as a player, and from his stints as coach of South Africa, Warwickshire, and Pakistan, and his untimely passing will sadden what has been up till now a riveting tournament.

It also is a pointed reminder of the pressures that international cricket coaches have to face -- especially those in charge of teams from the sub-continent. Here cricket is

often more than just a game, and a huge amount of expectation rests on the shoulders of the national squads and management. It is also a place where bad fortune is not tolerated kindly.

It may be speculation, but it seems that Woolmer's heart attack and Pakistan's shock demise at the hands of a team of debutant, part-timers are connected. The knives would have been out for Woolmer and Inzamam, and this pressure would have been sorely felt. A clearly distraught Inzamam has since fallen on his sword and resigned as captain. Cricket can sometimes be a lonely and thankless sport.

Ex-India coach John Wright -- no stranger

himself to this sort of stress -- spoke about there being no middle ground coaching a team like Pakistan: "When you're up, you're up, when you're down, you're down." But as Wright also said: we should remember Woolmer as a person who truly loved the game.

So perhaps this is also a good moment for us to press pause, and think of the contribution that Tigers coach Dav Whatmore has given to Bangladesh. With the on-field heroics Bangladesh has produced recently it is easy to forget the man behind the scenes.

Remember that when Whatmore took over as Bangladesh coach in 2003 he faced a mammoth task. Bangladesh had just come

off a hopeless World Cup campaign, and had recorded their 40th consecutive match without a win.

Many would have been put off by the idea of lifting a team in such a slump -- but his view was that Bangladesh had plenty of talent. "They're oozing with it," he claimed at the time. In an early interview, Whatmore set out his immediate goals: to be honest and upfront with the team, and make sure the players started being more responsible for their decisions and actions.

With this approach he revamped the attitude of the squad and their preparation, identified and nurtured young talent, and made it clear to the players that they had a long journey ahead. And though it

hasn't been plain sailing, he always argued the team was capable of success, often taking stick from the press and public.

Whatmore is continually realistic about the Tigers' progress, even after the recent win against India, he cautioned those who expectations might get away from them: "It is just one match." A cool head indeed.

In the lead-up to the next match, Whatmore will once again play a crucial role. He holds an in-depth grasp of the Sri Lankan game, and this could well provide the edge the Tigers need. He would have sat down with Bashir and the squad, and devised a game plan for each of Sri Lanka's batsmen, so expect to see some more timely bowling

changes by the skipper.

As both teams have now played a match on the ground, both coach and captain would have also made a decision on what to do if the toss is won. Queen's Park has shown itself to be a good batting track, and to provide some assistance to the seam bowlers I feel they will decide that having a bowl first is still the best option.

Sri Lankan batsmen have been known at times to struggle against bowlers who get some movement. Mashrafe and Syed both made the most of the early morning start against India, and the Tigers will be counting on them to do the same again. I also fancy the Tigers' young batsmen will be more comfortable when

chasing down a target rather than setting one.

Unlike India, there will be no complacency in the Sri Lankan approach to this game. They have seen the control the Tigers had over India, and will be wary. The style of play of both teams is comparable, and there are two well matched arsenals: batsmen who like to play their shots, penetrating seamers, and spinners capable of applying pressure.

This match will be closer than the previous one, and I am reluctant to call it. It could go either way. Sri Lanka needs this win more than Bangladesh, they will not want to go into their game against India with both teams facing a do or die

situation. Does this provide Sri Lanka with that little extra hunger and give them an advantage? Or does this mean that they will feel the pressure more acutely and suffer if things don't go according to plan?

To avoid sitting on the fence I'm going to pick Sri Lanka to win -- but it could come down to the wire. Sri Lanka's wealth of experience will just tip the scales.

This would then leave a hapless Bermuda facing a backlash, as the Tigers play their bowling to all parts of the park to accrue a huge run rate. Bangladesh will then go into the second round with high spirits, and the promise of more drama.

