

The inflation worry

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ANIS CHOWDHURY

INFLATION has hit the headlines in almost every news media as it surged during the last few months.

Why should policy makers worry about inflation? There are a number of reasons. First and foremost, high inflation causes uncertainty, which is not good for long-term investment decisions.

When economic growth slows, many may lose jobs. Even if no one loses jobs, the growth of new jobs will be much less than what is needed to absorb all those who will

be entering the labour force after leaving their schools/universities; so, unemployment will rise.

Second, inflation reduces the purchasing power of the people whose wages and other incomes do not rise as fast as prices.

Third, the government's budget deficit may rise as its tax collection lags behind its expenditure, which rises due to inflation.

Fourth, inflation harms the export sector as our products become more expensive compared to our trading partners.

However, inflation is unavoidable. It happens due to frictions in a growing economy. As investments are made and the government spends to create infrastructure, people receive money, which they spend.

So, where do economists stand on the issue? The orthodox school of thought, which dominates international financial institutions such as the International Monetary Fund

can even be good. It allows the economy to move towards a desirable structure. By redistributing income to profit-earners or business owners, it can generate more savings for investment.

Inflation also acts like a tax; this is a bit technical. This happens as people's purchasing power is transferred to the government, which is the sole supplier of money. People need to hold more money to meet their purchasing needs and to maintain the value of their savings.

A large number of cross-country studies by respectable economists find that inflation can be bad if it exceeds 30-40%. The current inflation in Bangladesh is still below the historical danger mark.

In the debate about inflation, the IMF/WB economists quite often claim that inflation is bad for the poor as it erodes their purchasing power. The non-orthodox economists, on the other hand, point out

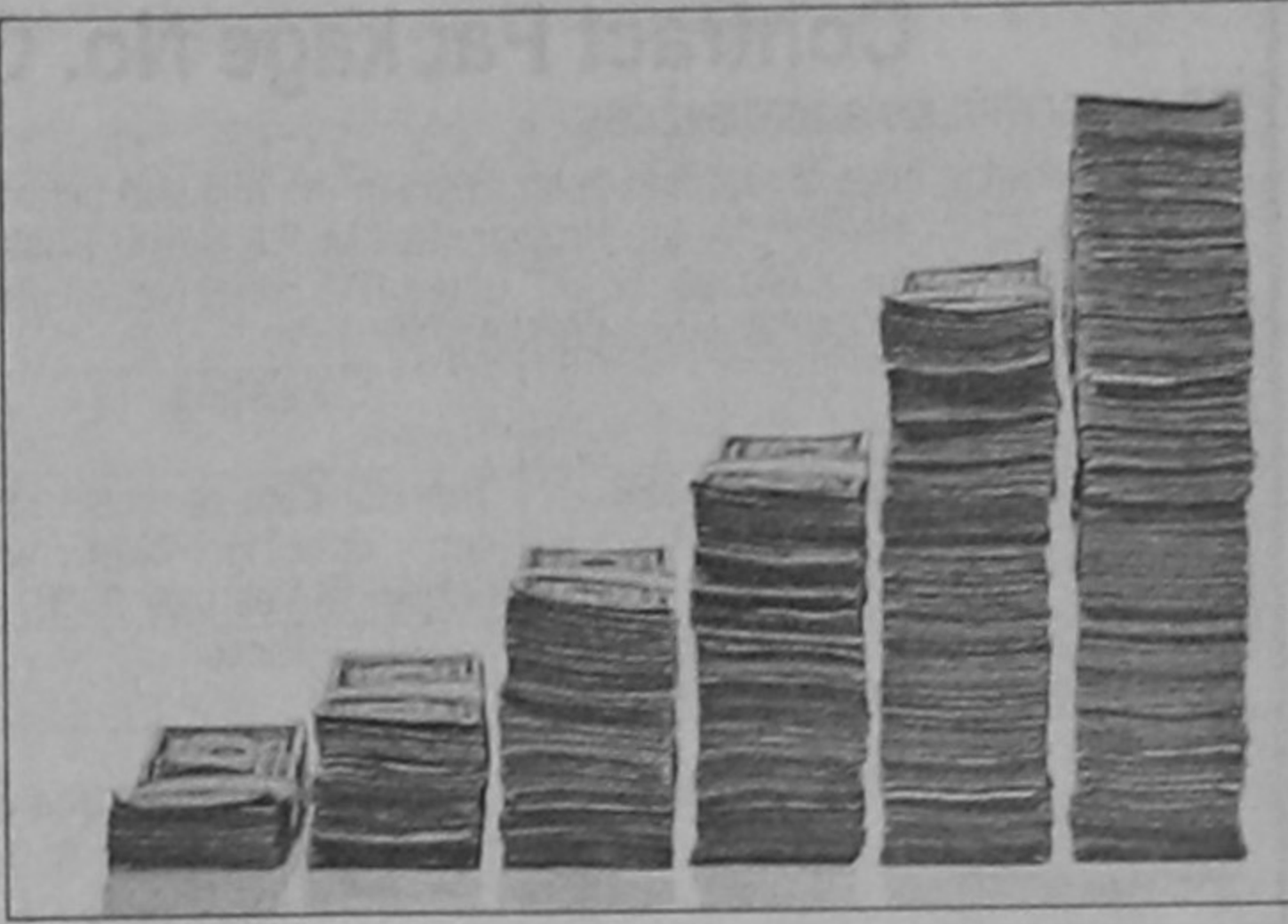
that the attempt to keep inflation at a very low level (near zero) can stunt economic growth. In that case, the poor will lose jobs. Thus, it becomes a choice between a lower purchasing power with moderate inflation and no purchasing power with very low inflation.

The non-orthodox economists also believe that since the poor are net borrowers they are better off vis-à-vis their lenders, as the real value of their loan declines with inflation. According to them, what hurts the poor most is not the overall inflation, but the inflation of basic goods, such as food, clothing and shelter.

The non-orthodox economists insist that any response to inflation must be based on a sound analysis of the sources of inflation. This is in sharp contrast to the orthodox school, which believes that inflation is always caused by excessive money supply or budget deficits, and any inflation is bad, so must be nipped at the bud.

This is where the debate is most relevant for Bangladesh. The current spiral in inflation, as the Bangladesh Bank correctly identifies, is chiefly due to global inflation in fuel and consumer goods prices; and recurrent floods and the devastating Cyclone Sidr last year in the country.

If the Bangladesh Bank follows the orthodox prescription and tightens money supply indiscriminately then it will add to the misery by slowing the economy further and increasing unemployment. The section of the community that depends on small business and agricultural activities will be the worst hit by such a policy response.



Inflation: Rising step by step!

The government can, however, compensate the public servants in a non-inflationary manner. A few such measures can be considered. For example, their income can be adjusted upward by paying with savings certificates, or by making increased contributions to their pension funds.

The government must also neutralise the pressure on the private sector to raise wages of employees. This can be done by the provision of subsidised essentials, such as food, education and health services.

Of course, these measures will have an impact on the budget, and should be implemented keeping budget sustainability in mind. Therefore, the revenue side of the budget also needs attention. In a circumstance like this, the government can consider temporary levies on well-to-do sections of the community, or imposing taxes on luxury consumption. Once the economy is stabilised and growth resumes, every effort must be taken to improve the revenue side of the budget.

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LIGHTEN UP

A tale of two prime ministers

MEGASTHENES

THE three pre-eminent powers of Asia -- Japan, China and India -- have for long interested, even fascinated, the West in general, and scholars and orientalist in particular, and for very persuasive reasons too.

Japan is a saga of an economic miracle. It is an island nation of finite natural resources and limited arable land, which has surmounted the ravages of war and nuclear attack to emerge as the second largest economy in the world. Its most potent asset is its human capital. The Japanese people have a singular work ethic and a deeply ingrained sense of honour, obligation and responsibility. They have cultivated a consensual approach to issues, which mitigates divisions.

The Chinese and Indian civilisations pre-date that of Japan's. Pandit Nehru, in one of his scholarly and widely read books, described China and India as sister civilisations. These two nations, he felt, afforded the only instances of a continuity of civilisation and culture, from the dawn of history to modern times.

China is a vast country of tremendous potential, with a population to match. It is a major power, one whose importance can only increase with time.

India, likewise, is a country of sub-continental proportions, with a population second only to China. It is, somewhat belatedly, beginning to realise its enormous potential. India is also the world's largest democracy and has considerable influence with developing countries. India's colonial connections make it simpler -- relative to Japan and China -- for the West to both understand the country and its people, and relate to them.

A few Western diplomats with experience of India have written very readable and evocative accounts of their tour of duty there. A very insightful and analytical such book was written by Australian journalist Bruce Grant, who served as Gough Whitlam's high commissioner to India during 1973-76. To Grant, India was the most sensual of all countries that he knew well; a place from which no traveler returned unchanged.

The prime minister of India during Grant's tenure as high commissioner was Indira Gandhi. Grant found Mrs. Gandhi unquestionably strong in her leadership style, but "a light, even timid, conversationalist" and a "difficult personality" without the "intellectual command" of her father.

In relaxed gatherings, she would recount personal anecdotes, both perhaps to regale and to make a point. Grant's favourite anecdote related to a stop-over visit by her to France, early into her prime ministership. President de Gaulle was to host her at lunch. Her officials informed her that there would be no speeches.

Mrs. Gandhi knew politics, politicians and enough about Gen. de Gaulle to be a little puzzled. She kept her own counsel though, and quietly prepared a speech, just in case.

On arrival at Paris, her Ambassador reassured her -- no speeches. At the lunch, however, Gen. de Gaulle rose dutifully, not just to address a few remarks of welcome to his guest, but to make a serious

speech, covering "salient points" of French foreign policy. Mrs. Gandhi's officials would surely have been discomfited! Mrs. Gandhi, in turn, delivered her own speech, with aplomb and in French. Gen. de Gaulle would comment later: "She will go a long way in politics, that one."

Here was a prime minister who backed her instincts over the authentic information of seasoned professionals, and was vindicated. Her officials could not perhaps be faulted. They had reported honestly what they had officially been told, and this is the usual way that bureaucracies function. Mrs. Gandhi would later recall this episode with obvious relish.

Some years back, a similar story about another prime minister was related by a close friend. Dr. Humayun Khan, was a product of Cambridge, a barrister-at-law from Lincoln's Inn, and had a doctorate in public administration from the University of Southern California. He was a distinguished member of the Civil Service of Pakistan. In 1988, he was appointed foreign secretary, but was replaced, for some reason or other, a year later by the then prime minister of Pakistan, Benazir Bhutto.

Subsequently, following a change of government in Pakistan, he was appointed High Commissioner to the UK, and during his term of office, Prime Minister Nawaz Sharif paid an official visit to Britain. It was a successful visit.

The two prime ministers, Nawaz Sharif and host John Major, got along famously; they also shared a love of cricket. Then, quite unforeseen, to

would be no speeches, an information he promptly conveyed to his prime minister.

After dinner though, Prime Minister Major rose, to make not a formal speech but a few impromptu and light remarks. As Major was speaking, the High Commissioner took a menu card from the table and hurriedly wrote a few lines for use by

Nawaz Sharif in his response. Nawaz Sharif did use the hastily drafted notes in his reply but was neither amused nor appeased.

Earlier, there had been a minor hiccup over the guest list from the Pakistan side for the official dinner hosted by Major at 10 Downing Street. The Pakistan delegation was big, and seating capacity at the dinner table at no.10 was limited. The problem had been resolved, almost fortuitously.

Humayun Khan was nearing retirement at the time of Nawaz Sharif's visit. Before leaving for the UK, the Pakistani prime minister had in fact approved a proposal to extend his services by one year. On his return to Pakistan, Sharif revoked his earlier decision. Two prime ministers from the same region reacting to similar circumstances in very different ways.

Humayun Khan did not lose out though. He was appointed to the post of Director of the Commonwealth Foundation in 1993, where he would serve for two terms. He certainly possessed impeccable credentials for the job and, just as importantly had wholehearted British support for his candidature.

The British Foreign Office perhaps felt indirectly responsible for the cancellation of his extension -- they had categorically assured him that there would be no speeches at the dinner -- and wished to make amends. A general notion of fair play has traditionally been associated with the British.

High-level political visits are invariably planned and organised with the utmost care. Not infrequently though, Murphy's Law supervenes, namely if something can go wrong, it will. Narasimha Rao, during a visit to Iran, had to walk a considerable distance up an incline.

For a person in normal health, such a walk would have been unexceptionable. Rao, however, was elderly and had a heart condition. He would rightly have expected his embassy to arrange for transport to take him up the incline. His displea-

sure amounted only to a terse comment to his foreign secretary, that some people still did not quite appreciate the fact that he was the prime minister of India.

In 1938, at an important Anglo-German meeting in Berchtesgaden, British Foreign Secretary, Lord Halifax mistook Hitler for a doorman. Halifax had earlier, as Lord Irwin, Viceroy of British India. The Office of Viceroy had its share, and more, of pomp and pageantry. Halifax, thus, would have seen more doormen than most people.

A foreign secretary of more recent times, Jack Straw, unwittingly shook hands with President Mugabe at a lunchtime reception at the UN in NY; this at a time when bilateral relations between Britain and Zimbabwe were chilly. Straw reportedly had not "immediately" recognised the president of Zimbabwe. One could go on.

The burdens and demands of high office are heavy, and a public leader or prime minister can only be judged against the "bigger picture." This would include elements like success in defining and achieving policy objectives, the ability to inspire and motivate, the political and moral leadership exerted, challenges and problems faced, and the historical impact of policies adopted.

A leader's handling of officialdom may not be of great moment. And, yet, it is true that the qualities of sensitivity, understanding and generosity are more becoming to anyone holding high office, than petulance and pettiness. But there are prime ministers and prime ministers. And there always will be.

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Different strokes for different folks!



humans and do not cause epidemics or pandemics.

Why danger of H5N1 virus in Bangladesh

Bangladesh is a developing country where more than 40% people are under the poverty line. They are not conscious about the viral diseases like bird flu. Ever since it was first identified in 1997, the H5N1 avian influenza virus has proved both highly lethal and easily transmitted, killing millions of birds as well as smaller numbers of other animals, including cats, writes Andrew Jack (WHO). To date, it has infected 335 people and killed 206 since 2003, according to the World Health Organisation. So far, most human cases have been linked to contact with sick birds.

The first avian influenza virus, detected in a poultry farm in Savar, 25 km west of the Dhaka in March, 2007, was H5N1. Tens of thousands of poultry birds were culled at that time. Since then, 69 farms in 20 districts have been infected with the H5N1 virus. There are around 150,000 poultry farms in Bangladesh, with an annual turnover of \$750 million, and

about 4 million Bangladeshis are directly or indirectly associated with poultry farming, but so far there have been no cases of human infection in the densely populated country, government and health officials say. Experts fear the bird flu virus might mutate or combine with the highly contagious seasonal influenza virus and spark a pandemic that could kill millions of people.

"There is no evidence available that would suggest that we should begin vaccinating populations across the board with H5N1 at this point in order to prevent a pandemic, because it is not known what may cause a pandemic," World Health Organisation (WHO) Assistant Director General David Heymann told reporters. Who has reported human cases of avian influenza A (H5N1) in Asia, Africa, the Pacific, Europe and the Near East. Overall mortality in reported H5N1 cases is approximately 60%. The majority of cases have occurred among children and adults aged less than 40 years old. Mortality was highest in cases aged 10-19 years old.

Studies have shown that the most significant risk factor for



Knocked out by the 'flu'

human H5N1 infection is direct contact with sick or dead poultry or wild birds, or visiting a live poultry market. Already human deaths due to the H5N1 virus have been recorded in Pakistan and Myanmar, and people have been hospitalised in Kolkata recently. The scientific consensus is that an avian pandemic could sicken 20 percent of the world's population, resulting in absenteeism of 40 percent of the global workforce -- and kill tens, if not hundreds, of millions of people. The

report goes on to say that outbreaks will likely move along modern transportation and distribution chains, with transportation hubs being especially vulnerable. Disruption at these hubs will be significant, and could have an irreversible impact on businesses. Bangladesh imports poultry feed from countries that have already had outbreaks of bird flu.

Can vaccination stop bird flu? All but one of the 30 countries in

danger had plans for pandemic vaccination, but less than half of those outlined ways to store and distribute vaccines. The World Health Organisation said that recent scientific advances should boost production capacity of pandemic flu vaccines to 4.5 billion doses annually by 2010. However, this is still short of the WHO's target of being able to provide a vaccine to all of the world's 6.7 billion people within six months of a pandemic being declared. Health experts say a global influenza pandemic is long overdue. There were three such pandemics in the last century, including the 1918 global outbreak in which anywhere from 50 million to 100 million people died, and milder ones in 1957-58 and 1968. Although the Bangladesh government is taking a strong initiative to check further outbreaks, yet reports come in from remote areas everyday of chicken culling and egg dumping. Only more scientific research development can stop bird flu!

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Bird flu

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MD. MOSHARRAF HOSSAIN

AVIAN influenza, sometimes called avian flu, and commonly bird flu, refers to "influenza caused by viruses adapted to birds." Bird flu is a phrase that it refers to an illness caused by any of the many different strains of influenza viruses that have adapted to a specific host. There are three types of influenza viruses: A, B, and C. Only influenza A viruses are further classified by subtype on the basis of the two main surface glycoproteins hemagglutinin (HA) and neuraminidase (NA). Influenza A subtypes and B viruses are further classified by strains.

Influenza Type A and its subtypes can infect people, birds, pigs, horses, and other animals, but wild birds are the natural hosts for these

viruses. Influenza type A viruses are divided into subtypes and named on the basis of two proteins on the surface of the virus: hemagglutinin (HA) and neuraminidase (NA). For example, H5N1 virus has an HA 5 protein and an NA 1 protein. There are 16 known HA subtypes and 9 known NA subtypes. Only some influenza A subtypes (i.e., H1N1, H1N2, and H3N2) are currently in general circulation among people. Other subtypes are found most commonly in other animal species. For example, H7N7 and H3N8 viruses cause illness in horses, and H3N8 also has recently been shown to cause illness in dogs.

However, there are substantial genetic differences between the influenza A subtypes that typically infect birds and those that infect both people and birds. Three promi-

nent subtypes of the avian influenza A viruses that are known to infect both birds and people are; Influenza A H5: H5 infections, such as HPAI (highly pathogenic) H5N1 viruses currently circulating in Asia and Europe, have been documented among humans and sometimes cause severe illness or death. Influenza A H7 and Influenza A H9 have rarely been reported to infect humans. However, this subtype has been documented only in a low pathogenic form.

Influenza Type B: Influenza B viruses are usually found only in humans. Influenza B viruses can cause morbidity and mortality among humans, but in general are associated with less severe epidemics than influenza A viruses.

Influenza Type C: Influenza type C viruses cause mild illness in