

The political economy of a caretaker's budget



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not promising. Current protestations on the budget being over-ambitious are thus somewhat academic. Given the dual nature of the mandate for implementing this year's budget, the finance adviser would have been well advised to consult with the political parties when he was preparing the budget rather than just dialogue with economists and business folk.

How far will the fiscal decisions made by the CTG for FY09 prove a problem for the elected government? The most significant innovation of this budget is the heavy emphasis on safety net programs in the form of transfer payments and subsidies. This year the safety net program has been increased from Tk 11,467 crore in FY08 to Tk 16,932 crore in FY09, a jump of 48%. This program is targeted to benefit 16 million people during FY09, compared to 10 million in FY08, an increase of 60%.

Subsidies on food, fertiliser and fuel will also increase from Tk 11,669 crore in FY08 (it was Tk 6,000 crore in the original budget) to Tk 13,641 crore in FY09. If we also treat subsidies as a transfer payment then in FY09 we will witness transfer payments in the range of Tk 30,573 crore out of a total public expenditure (Revenue + ADP budget) of Tk 99,962 crore, which is around 30% of total expenditure. This is an unusually high figure, which has never been matched in the last 15 years of elected governments.

Making such transfer payments

is usually less of a problem than implementing the ADP. The forthcoming elected government may, in fact, bask in the popularity of paying out these sums to 15 million voters without being accused of political opportunism, since these payments were initiated by the CTG. In practice it will test the governance calibre of a newly elected government to contain considerable opportunities for corruption by their cadres and the resort to political patronage offered through the expenditure of such large sums of cash.

It should be kept in mind that this large increase in transfer payments will mostly be targeted to low income groups who have been hardest hit by the severe increase in prices over the last year. All political parties and many economists as well as public commentators have been charging the government with a failure to deal with inflation. The CTG can hardly be blamed for this inflation, which originated, in part, due to the shortfalls in food-grain production due to Sidr and the floods, which was compounded by the unprecedented global price hike of food-grains, fuels, and commodities.

In such circumstances of exogenously driven inflationary pressure, the capacity of any government to reverse the price hike was always limited. The easier option, both operationally and politically, for an insecure CTG, was to resort to populist measures of stepping up transfer payments targeted to those hard hit

by inflation. Such an approach could also be seen as pro-poor and consistent with the Amartya Sen school of thought which argues for such welfare interventions to deal with "entitlement failures" due to a sharp fall in purchasing power of the poor. As was observed recently in a study by CPD, the impact of the recent inflation has most severely eroded the purchasing power of the poor where a possible 2.5 million households may have fallen below the poverty line.

The CTG's one significant innovation in this year's budget was to introduce, for the first time, a comprehensive employment generation program through guaranteeing 100 days of employment in a year per family to anyone seeking work. It was assumed that this program would be availed of by the rural poor since the wage on offer was Tk 100 per day, which is roughly the wage of a day labourer. The Tk 2,000 crore budgeted for this program would assure work for 2 million of the rural poor. Such a program of guaranteed employment had been put in place in India in 2005, by the Congress-led government.

In practice, Bangladesh already has a variety of programs designed to generate employment, such as the Food for Work program, which in FY09 was allocated a budget of Tk 1,578 crore to provide work to at least 1.5 million people. Implementing an employment guarantee scheme for the first time may not be easy, particularly since

we have no system of local government in place to oversee such a program. Some guidance from the Indian experience may be useful. All this will take time so that its implementation will again be largely left to the elected government who are not without experience in implementing large-scale relief programs. For example, in the aftermath of the 1998 floods, the Awami League government fed around 4 million low income people for nearly 6 months through the VGD/VGF programs.

The current transfer program of the CTG, which is targeted to around 16 million people is of a larger scale than earlier relief programs. Such a large allocation of public expenditure targeted to the poor, would normally have found favour with the pro-poor constituency who traditionally criticise finance ministers for the anti-poor nature of their budgets. Indeed, the standard critique of the political opposition, to the budget, whether introduced by an Awami League or a BNP finance minister, has been that it was anti-poor. This is the first budget which has not been charged with being anti-poor, though no one has gone so far as to acclaim it as pro-poor. The main criticism from economists appears to be that it is fiscally irresponsible, which, in IMF parlance, would be termed "populist" - which it obviously is.

This brings me to the main part and conclusion of my observation. A CTG, with only 6 months left to its tenure, facing a politically volatile 6 months before it vacates office, would appear to have no option but to be populist. Such populist budgets are usually favoured by political parties on the eve of an election. Mr. Chidambaram, the present finance minister in the Congress-led alliance government in India, introduced such a populist budget in March this year, in anticipation of a

forthcoming national election. This budget, unfortunately did the Congress no good because they were defeated by the BJP in the recent state level elections in Gujarat and Karnataka.

Since our CTG is not seeking to contest any election, its own regime survival strategy would be consistent with the populist measures introduced by the finance adviser in this budget. Indeed, the finance adviser could have been even more populist by seeking to finance the sizeable budget deficit by borrowing more from non-bank sources than bank sources. The FY09 budget pledges to finance the deficit through an increase of 30% in bank borrowing which is projected to rise from Tk 10,398 crore (1.9% of GDP) in FY08 to Tk 13,498 crore (2.2% of GDP) this year compared to Tk 3,500 crore of non-bank borrowing. Both the business community and economists argue that this increase in bank borrowing may crowd out private sector borrowers thereby putting up interest rates and fueling inflation.

We do not need to depend too heavily on bank borrowing to finance a budget deficit. Resort to non-bank borrowing, on a large scale, through increased sale of savings instruments to the public, would have less of a crowding out effect than bank borrowing since it can tap into Bangladesh's increased national savings. Bangladesh's Gross National Savings (GNS) has been quite buoyant and has last year risen to 29% of GNP in FY08, due to the significant increase in remittances to nearly \$8 billion. In the last few years, the GNS rate has been higher than the Gross National Investment (GNI) rate, which was 24% in FY08. Some of this increase in GNS, including overseas remittance, could easily have been captured in the budget through more aggressive sale of National Savings

instruments. In actual fact, sales of savings instruments fell from Tk 9,932 crore in FY06-07 to Tk 9,240 crore in FY07-08, possibly due to a decline in real interest rates. The net sale in savings instruments in FY08 was only Tk 2,000 crore which is projected to increase to Tk 3,500 crore in FY09. Resort to non-bank borrowing could be significantly expanded in FY09, thereby reducing the need for additional bank borrowing. This could be achieved through offer of additional facilities to our overseas migrants to invest more of their remittances in government savings instruments. But to attract such savings the government would need to offer a more competitive interest rate with some possible tax rebate incentives.

The reason why the finance adviser has limited his resort to non-bank borrowing is that it raises the interest rate burden in the revenue budget which now stands at 11.3% and 1.8% of GDP. By way of comparison, in India in FY09 the domestic interest payment took up 23% in the budget and came to 2.5% in their GDP. In Pakistan domestic interest payments accounted for 17% of the budget in FY09 and 3% of GDP. It is thus not high by regional standards, but this rising trend of interest payments for domestic debt in Bangladesh is cause for some concern and will have to be handled carefully by the elected government.

In practice, we should not be over-obsessed with budget deficits in the range of 5% of GDP. Whether, in fact, budgetary deficits are inflationary, depends on the structure of the economy. If we have considerable unused capacity in the economy, then injection of purchasing power into the hands of the low income groups, even through deficit financing, could stimulate economic activity, thereby neutralising any inflationary effect.

In Bangladesh, injection of Tk 13,000 crore as purchasing power into the rural economy will stimulate our farmers to step up agricultural production where there is enormous capacity for increase in output. It will also stimulate small and medium industries (SMI), which are the main source of supply to the rural economy and have considerable underused capacity to respond to such increased expenditure. Even the bigger industries, catering to the domestic market, who usually carry considerable unused capacity, would be able to step up production in response to increased purchasing power in the rural areas.

In such circumstance, using a budget deficit to transfer purchasing power to the poor of Bangladesh could have a potentially growth inducing effect on the rural and macro-economy. Obviously this argument presented by me needs to be more carefully researched, and should not be seen as a carte blanche for the finance minister to resort to deficit financing. However, neither should our economists automatically assume the mantle of Milton Friedman and rush to condemn any increase in budget deficits without investigating the implications for an economy with our special peculiarities.

Given the longer term implications of this budget, there is still time for the CTG to invite the political parties to discuss how its positive components can be carried forward after January 2009 and any attendant problems can be dealt with both before and after the elections. This issue may be put on the agenda of the ongoing dialogues between the CTG and the political parties.

Prof. Rehman Sobhan is Chairman, CPD.

Suspended animation

At this stage, we have no option but to wait till July 31, request the CTG to announce the date for relaxation or lifting of emergency, and be discreet about mass arrest. Let the people of Bangladesh be drawn out from suspended animation, and get them ready to participate in the much-awaited national election with zeal and enthusiasm.

A.B.M.S. ZAHUR

THINGS appear to have started moving in Bangladesh politics since May 22. Indoor politics has been allowed. Dialogue between the CTG and the political parties have begun. Political parties have started taking necessary preparations for the election to be held in December.

Apparently, both the major political parties may take part in the dialogue ultimately. Thus, there is a prospect for a reasonably successful dialogue.

Without attaching much importance to the dialogue, what should be carefully attended to is completion of the last but the most important part of the job of the CTG, i.e. extending all-out support to the EC

to hold the national election smoothly, efficiently and neutrally, and to make it acceptable to the parties, the people and the international community.

A parliamentary government cannot work without political parties. A modern party is not merely a group of like-minded members of parliament. It is an organisation of people of broadly similar ideas or interests, whose aim is to gain political power.

They want to govern so that they can achieve their objectives. At the same time, they may wish to prevent their opponents from gaining or maintaining power.

Political parties perform two important functions in a parliamentary government. First, they select candidates to stand for parliament. Second, they put forward alternative policies. Each party should have a constitution setting out its structure, body of rules and basic beliefs, principles and a "platform" setting out its objectives and policies.

Democratic elections require a number of essential conditions. The foremost is the right of political parties and individual citizens to stand and campaign for election in opposition to the government in power. In our case it may be amongst participating political parties because CTG is a non-party government.

We shall, however, have to follow the following basic rules for conducting the elections:

- The qualifications for members of parliament should not be too restrictive; and
- The elections should be conducted honestly and by secret ballot.

Educated, sensible people constitute the CTG. Some of its deeds are excellent and have been well appreciated. It also deserves credit for good governance. Maybe it has committed omissions and errors due to lack of experience and effective cooperation from the politicised bureaucracy. That does not mean that it should bend to any undue political pressure. We advise it not to spend too much time in dragging on the discussions with the political parties.

The current mass arrest is puzzling. No one knows how long this will continue. The police say that the operation only aims at preparing a safe and peaceful environment for a successful election.

On the other hand, political parties, particularly the major ones, consider this police action as a step for crippling political activities though CTG has allowed indoor politics.

In picking up possible disturbing elements the administration must be careful. The activists with clean records must not be caught, i.e. no impediment should be put up in the participation of political parties in the election. Maximum participation of voters has to be ensured.

Participation of parties in the dialogue is no guarantee for a successful election if some sort of commitment from the political parties cannot be obtained for recognition of the reformatory measures taken, and those that may be taken by the CTG, the dialogue cannot be considered successful.

At this stage, we have no option but to wait till July 31, request the CTG to announce the date for relaxation or lifting of emergency, and be discreet about mass arrest.

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What if Hillary had been black?

Based on the characteristics of the presidential campaign so far, logic suggests that a black Hillary endowed with her distinctive qualities and that of Obama would have won the Democratic nomination convincingly. Her candidacy would have appealed to her own and Obama's voters: middle-aged and senior white women voters, white low income males, blacks, Latinos, affluent white liberals, students, young professionals, and independents disenchanted by Bush.

MUMTAZ IQBAL

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A black Hillary's victory would have been a telling triumph of and for gender and race that for long have been the dark undersides of US society.

Instead, on Saturday, June 7, at 12:47 in Washington DC, the former first lady formally endorsed Barack Obama as the presumptive Democratic presidential nominee, agreed to support him and asked her supporters to back him in a 35 minute speech that was as gracious in tone and texture as her earlier speech on Tuesday, June 3 night -- when Obama had clinched the nomination -- was tacky.

So why did Hillary, whose candidature was considered a shoo-in when she announced it about 18 months ago, lose to Obama?

Quite a number of her women supporters claim that it was sexism combined with unflattering media coverage that felled her.

This explanation doesn't hold water. Two main reasons proved her undoing. First, Obama ran a

much more successful campaign -- in essence a movement, appealing to the heart and head -- based around the desire for change amongst large swathes of US society, following eight years of incompetent Bush rule that, inter alia, saw the economy tanking, joblessness rising, petrol prices going through the roof (unleaded is \$4 a gallon now) and the huge mess of the Iraq war.

To implement this message, he built a formidable and smooth organisation and used the internet brilliantly and creatively to raise millions from 1.6 million small donors.

Obama also focused on winning pledged delegates in the smaller states that held caucuses instead of polls, where Obama's band of nimble and dedicated supporters, especially the young professionals, proved their effectiveness.

By contrast, Hillary's campaign team suffered from overconfidence and not a little bit of hubris, was plagued by acrimony and dissent and weighed down by the emotional and political baggage of a marriage between a past president and potential contender for the presidency. Her fund raising strategy was to rely on a few big fat cat donors whose purse strings tightened considerably when she came third in the Iowa primary on January 3.

"What hurt them (Clintons) was their sense of entitlement that the presidency was theirs and all the acolytes should fall in line," said Governor Bill Richardson of New Mexico, a former Clinton cabinet member who endorsed Obama. Obama winning the nomination

is historic in that it was the first time a black -- actually half-white -- had become the presidential nominee of a major political party. This shows how far US society has come since Martin Luther King Jr. was murdered in 1968.

But it would be wrong to think that racism is dead in America. Many white working class and elderly voters, especially those in such states as West Virginia and Kentucky, voted for Hillary partly because voting for a black man is anathema to them.

By the same token, Hillary's gutsy performance in winning 18 million votes shows that US society is prepared to accept a woman as president. But this doesn't mean that sexism is dead.

What the Obama and Hillary campaigns showed was that blacks and women in US have made a great deal of progress in the past fifty years. But much more remains to be done if the US is to become a more just society, a challenge not unique to America.

Obama's campaign has switched from nomination to general election mode, where he will face the Republican presumptive nominee John McCain, another senator like Obama -- the first time in US politics that two senators will fight for the presidency.

As of now, polls indicate that Obama has a slight lead over McCain (46 to 43%). Bush's unpopularity -- his approval rating is a measly 28% -- hasn't harmed McCain, yet.

This presidential election is one the Democrats will not want to lose. Nevertheless, Obama has his work cut out for him. He'll have to work hard to get the middle-aged women, white workers and Latinos to vote for him. Hillary, and Bill, can be of great help in this regard.

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The sad song of the single eyelid girl

Vittachi
ONLY IN ASIA
by Nury Vittachi

THE search is over. The world can take a deep breath. Readers have spoken, and the mission to find the most, er, memorable East Asian pop song lyric ever has come up with a winner.

Let's go in reverse order. In third place comes Hong Kong's Aaron Kwok with this baffling line: "A crowded car is like the noise of bees who is specially recalling my face with nostalgia." Thanks, Aaron, keep taking the tablets.

In second place is Taiwan's Richie Jen with this great passage: "Lonely boy's flyswatter: Swat-

swat left, swat-swat right. How come I have no one to love me? No one shows interest. How boring." You said it, my man.

But the first place winner in this category has to be -- big round of applause -- Single-Eyelid Girl by the China Dolls, a group from Thailand.

This unforgettable song is about a girl who falls in love with a boy, but then discovers that he only likes double-eyelid girls, while she is a single-eyelid girl: "The boy at the table opposite us is here again today; look at his eyes, what amazing confidence. But I've heard

that he only likes double-eyelid girls! With my single eyelid, I have no choice."

For some reason, the song conjures up a vision of a Cyclops-like girl sitting in a restaurant with one huge eye in the middle of her forehead. I've never actually seen the lead singer of the China Dolls, so perhaps that is what she looks like.

Meanwhile, listeners of the Phil Whelan show on Hong Kong's Radio Three wanted to add the Beatles' While My Guitar Gently Weeps to our list of bad lyrics. George Harrison, desperately

looking for a rhyme for "sleeping," sings: "I look at the floor and I see it needs sweeping."

An even more embarrassingly desperate rhyme was spotted by reader Dave MacDonald in Led Zeppelin's Dancing Days: "I told your mamma I'd get you home/ but I didn't tell her I had no car/ I saw a lion, he was standing alone with a tadpole in a jar."

Raiya Kishwar Ashraf from Bangladesh added a song from her country which clearly has lyrics designed to shock listeners: "My shirt button is open: Oh brother. My shirt button is open!" Which

just goes to show that different things shock different people.

Reader Ricardo Cabeza scolded us for missing Neil Diamond's Play Me, for the line: "Songs you sang to me, sounds you bring to me."

We earlier mentioned an Indian song, which went, "Light your ciggie from my liver, oh lover." Reader Claudia Cucker says it may not be as absurd as it sounds: "The liver is the organ in your body that gives off the most heat." Thanks, Claudia. Next time I want to flambé my dessert, you can come round and ignite it with your internal organs.

Several readers wanted to give a Most Baffling Love Song award to Manfred Man for his song about a guy who meets a girl who says: "Doo wah diddy diddy dum diddy doo." He replies with the same phrase, and they decide to get married so they can spend every day chanting "Doo wah diddy diddy dum diddy doo."

The only possible response to this lyric is: What were they on when they wrote this, and where can I get some?

Much more to baffle you can be found at www.vittachi.com.