

Musharraf calls it a day

PPP and ML must now work together and not become rival

IN a long-winded speech to the Pakistanis sounding every bit a valedictory one, of a sad and fallen man, resigned to his fate, Musharraf communicated his decision to step down just hours before impeachment proceedings were set to be processed against him.

In his own words, he left his future in the hands of the people of Pakistan thereby submitting himself to the sovereignty of the people's will, not as an enlightened choice but as a last resort. If he had abandoned his vast appetite for, and the devious ways to cling to power beforehand, he would have spared the nation the gnawing turmoil it had been subjected to and himself the tragedy of a humiliating exit. Absolutely, he is the architect of his own downfall.

He usurped power from an elected government in the first place. Then his nine-year-long rule that followed saw the distortion of the constitution seizing exclusive powers to himself in terms of dissolving parliament and the government and complete breakdown of the institution of judiciary. His final act of folly was his sacking of Supreme Court judges *en masse* including the Chief Justice preceded by seeking reelection as president while being insistent on not shedding his uniform.

Normally, one would like to believe that Musharraf's decision not to use his prerogatives to dissolve parliament and push Pakistan back into the throes of instability has given a semblance of dignity to his exit and should help set aside the inherent dissensions in Pakistan's body-politic. Asif Ali Zardari and Nawaz Sharif have now a vital role to play in presenting a unified image of civilian forces with a shared, steadfast dedication to democratic ethos as the best safeguard against Pakistan sinking back in the abyss of military dictatorship.

The parliamentary majority of the triumphant political forces should now be utilised in curtailing the powers of the president to dissolve parliament and thus an elected government. That way, the foundation of a sustainable democracy will be truly and squarely laid in Pakistan.

Military rule has had an overwhelming presence in the over six-decade-long Pakistan history throwing up one consistent message: military dictatorship in any form and shape never pays ultimate dividend to a country. On the contrary, it leaves a messy situation getting over which can take a long time for a country. Pakistan should be wiser by the experience.

DMP's political intelligence office

Move is uncalled for and we reject it totally

THE move by the Dhaka Metropolitan Police to set up a new wing, the Political Intelligence Office, to monitor the activities of political parties, student bodies and industrial workers raises a number of uncomfortable questions, for obvious reasons. At a time when the police department should be focusing on the deteriorating law and order situation, especially in the capital, such a move by the police authorities can only bring into question the motives of the powers that be. We at this newspaper would like to make it clear, in unambiguous terms, that the step is fraught with risks the nation can surely do without.

The decision to set up the PIO is all the more intriguing because there are already such bodies as the Special Branch and the Detective Branch at work. These two bodies have largely been responsible for the kind of work that the PIO is now to be entrusted with. And, of course, there are the DGFI and NSI, which are understandably concerned with matters of national security. Coming back to the PIO issue, we are compelled to raise the question of how the idea was devised and by whom in light of existing realities. Are we to suppose that the SB and DB have not been performing well and to the satisfaction of the nation? Assuming that the answer to that question is in the affirmative, we certainly do not think that setting up a new department is the proper response. We think the more proper course for the authorities would be to improve the quality and performance of the DB and SB rather than add a new outfit to the police administration. The move, as it were, smacks of a surveillance of political parties.

In a culture where the popular yearning for democracy has always been a pronounced affair, such a move cannot result in a positive outcome. We therefore cannot but reject it as totally uncalled for. We hope that the caretaker government will step back from such a move, for if it does not it will only squander the degree of goodwill that it still has among the public regarding its objectives.

Meanwhile, it will be worthwhile for the government to concentrate on issues that truly matter. We have been hearing of reforms being envisaged for the police. To what extent those reforms have been undertaken, if they have been undertaken at all, is what the nation needs to dwell on. The police are symbolic of the state in that they are responsible for law and order and ensuring the rights and privileges of citizens. Let that be the principle on which the police work. Let nothing be done that can only ruffle public sensibilities.

Do we celebrate defilement of Dhaka?



SHAHNOOR WAHID

SENSE & INSENSIBILITY

Frankly speaking, give me one reason why we should celebrate Dhaka? Is there anything left of the past beauty to celebrate. Rather, Dhaka should be celebrated by the people who had forcibly grabbed the land on the shore of the Baridhara Lake. Dhaka should be celebrated by the thugs who have forcibly grabbed land on the Gulshan Lake. Dhaka should be celebrated by the goons who have forcibly taken land by the side of the roads and canals and ditches. Dhaka should be celebrated by the encroachers who have forcibly taken land on the banks of the Buriganga and Turag.

RAY, tell us in clear language, what do we celebrate in the name of celebrating 400 years of Dhaka? Do we celebrate the defilement for centuries that has left this once beautiful city bleeding and squeaking in deathbed? Do we celebrate its ghastly disfigurement done by the beastly nails of the rapists? Do we celebrate the orgy of plundering of its wealth that has downgraded Dhaka to the status of a poor old beggar woman on the street? If not, then what is left of Dhaka that is worth celebrating?

Pray tell me, where are those magnificent, exotic trees of Dhaka, and those birds living in their lofty heights? Do you hear the call of the green parrots (tia) anymore from the top of those trees? Where are those century-old krishnachura

trees by the side of the roads that provided shade to the weary walkers? Where are those large ponds where people bathed to cleanse the grime off their body?

Then again, where is the clean and safe Buckland Bandh (Dam) at Sadarghat where people, rich and poor, used to go in the afternoon to enjoy the fresh, health-giving breeze coming across the river Buriganga? Where is Buriganga for that matter? Who is responsible for its black water and the foul stench that make people fall ill? Do we want to celebrate that? How did those ugly structures come up on the bank of the river thus blocking the view of the century-old heritage buildings like the Ahsan Manjil? Do we celebrate that?

Where have the canals of Dhaka

vanished? Who were those people who had taken the decision to fill them up and construct roads, without even taking into consideration how the rain and floodwaters would recede from the city centre? Don't we suffer today when there is a little rainfall? Where were the "people's representatives" when such decisions were taken to destroy Dhaka? Should we think that they were the ones who had gotten the road construction contracts? Well, that explains.

Why did the 'great ones' decide to bring down the beautiful old building where the National Press Club stands today? Couldn't they keep the building for the sake of heritage and aesthetics and construct the new building behind it? Does modernity mean destruction of everything of the past? It

pains me to think that some of our senior members of the journalist community gave their approval for bringing down the old building.

What have we done to preserve and conserve many other magnificent buildings that once proudly dotted Dhaka's landscape? We know in what state lies Ruplal House. If those old edifices of history vanish into the dark void of eternity, what will be left for posterity to celebrate? Will they celebrate the odd building standing with the stance of defiance on Hatirheel across Hotel Sonargaon? Will they have any idea how neat and clean and safe residential enclaves like Wari, Gandaria, Azimpur, Bokshibazar, Purana Paltan or Segunbaghicha used to be in the golden days of Dhaka? Along with

the buildings have disappeared madhabilata, jui, kamini, joba, kathali chapa, rojonigondha and jui flowers from those parts of the city.

Look at the skyline of Dhaka. Doesn't it look like a madhouse where everything is in a mess and everybody is going in a wrong direction? There is no order, no cohesion, no sense, and no logic in Dhaka's traffic system, construction system, water supply system, sewerage system, garbage disposal system and its law and order system.

Today, we do not dare to go out on a rickshaw or CNG at night, as there is 200 percent chance of getting waylaid by dangerously armed hijackers. But there was a time, in the golden days of Dhaka, when there was no such thing as muggers on the roads. There was a time when a crime like murder used to take place once a year or maybe once in every two years. Today, on an average, four murders take place a day in Dhaka city.

Frankly speaking, give me one reason why we should celebrate Dhaka? Is there anything left of the past beauty to celebrate. Rather, Dhaka should be celebrated by the people who had forcibly grabbed the land on the

shore of the Baridhara Lake. Dhaka should be celebrated by the thugs who have forcibly grabbed land on the Gulshan Lake. Dhaka should be celebrated by the goons who have forcibly taken land by the side of the roads and canals and ditches. Dhaka should be celebrated by the encroachers who have forcibly taken land on the banks of the Buriganga and Turag.

Therefore, today, instead of making ridiculous attempts to celebrate some of its past glories, we should mourn the sad and slow demise of Dhaka. We should wait for the next four hundred years for the damage and defilement that has robbed Dhaka of its original countenance -- the flamboyant facade.

Today, instead of indulging shamelessly in frivolous festivity, we should highlight in large posters and video documents how, through the centuries, greedy people have violated the youth and beauty of a virgin called Dhaka and destroyed everything that was once so splendidly serene. We must pronounce loudly and unabashedly how some people are taking slices off Dhaka to satisfy their greed that is so viciously vulgar.

Shahnoor Wahid is Senior Assistant Editor of The Daily Star. The writer can be reached at shahnoorwahid@yahoo.co.uk

Money, credit and monetary policy



ABDULLAH A. DEWAN

NO NONSENSE

Each of the nine divisional branch offices of BB should have their own Policy Analysis Unit to gather primary economic data covering the entire division, and carry on some basic data analysis and then feed them back to the BB headquarter for further review and analysis. A nation of 150 million people deserves a central bank equipped with the state of the art econometric techniques of data analysis and highly skilled economists in all areas of research and policy analysis.

Money, Private Credit, Inflation, and Interest Rates

Period in quarter	M1 growth	PSC Growth	Inflation-rate (12 month Average)	Lending Rate	Deposit Rate	Spread	Real interest rate
FY07	%	%	%	%	%	%	%
Q1 Sept. 06	22.2	17.7	6.97	12.41	6.98	5.43	5.44
Q2 Dec. 06	32.5	19.4	6.77	12.60	6.99	5.61	5.83
Q3 Mar. 07	21.9	16.6	6.94	12.70	6.97	5.73	5.76
Q4 Jun. 07	17.4	15.1	7.20	12.77	6.85	5.92	5.57
FY08							
Q1 Sept. 07	21.9	15.9	8.01	12.92	6.76	6.16	4.91
Q2 Dec. 07	16.6	17.6	9.11	12.75	6.77	5.98	3.64
Q3 Mar. 08	15.0	21.4	10.00	12.65	6.91	5.74	2.65
Q4 May. 08	18.9	22.3	9.87	NA	NA	NA	

Note: Growth over the same period last year; PSC = private sector credit;

M1 = currency and coins + checking account deposits

Source: Bangladesh Bank Quarterly

tions in interest rates may be regarded as random noises -- not policy induced systematic changes, indicating that over the sample period changes in the MS had no effect on interest rates.

One plausible interpretation is that banks were able to lend out all their available reserves at the prevailing lending rates and, hence, there was no idle reserves pressure for banks to lower that rate to entice borrowers (demand for credit is nearly perfectly elastic -- a horizontal credit demand curve). For example, during the Sept. FY 06:Q1, M1 grew at 22.2% and the corresponding average lending rate was 12.41%. During the following quarter (Dec. FY06:Q2) M1 grew at 32.5% (a 10.3% jump up), and the lending rate, instead of falling, moved up to 12.60%.

Private sector credit growth (PSC) also reveals no systematic or predictable pattern of movements

with lending rates. Although higher M1 growth appeared to be associated with higher PSC growth during the FY07, the pattern became unpredictable over FY08 quarters, showing no predictable relationship with lending rates.

In addition to inflation fear, political uncertainty, and fear of being incarcerated for politically pushed loan extraction may also account for a lackluster growth in PSC.

As is well known, the major effects of monetary policy on output can take anywhere from three months to two years. And the effects on inflation tend to involve even longer lags, believed to be one to three years, or more.

So, how did BB's monetary policy affect the economy over the last two years? From the Table one can only see a predictable relationship between money growth and inflation rate: higher M1 growth

(currency + checking account deposit) in FY07 transformed into higher inflation rate in FY08 (with lags).

Real interest rate (real rate = lending rate - inflation rate) kept falling as inflation surged up, resulting in both lenders and depositors losing the purchasing power of their funds -- a real blow to both lenders and savers -- discouraging both lending and saving.

For the most part, the demand for goods and services is not related to the market interest rates, also called nominal interest rate (example, lending rates), quoted in the financial pages of newspapers; instead it is related to real interest rates (nominal rates - the expected inflation rates).

Changes in real interest rates affect firms' and consumers' demand for goods and services mainly by altering the costs of borrowings, the availability of bank

loans, the wealth of households, and foreign exchange rates.

For example, a decrease in real interest rates lowers the cost of borrowing; that leads businesses to increase investment spending, and it leads households to buy durable goods, such as autos and new homes and so on.

These would be accompanied by higher production and consumption, raising real GDP -- which constitute the short-run effects of monetary policy.

Note that the CB cannot set the real interest rate directly because the public's inflation expectations are not precisely predictable. Since the CB is the sole supplier of bank reserves it can only set nominal "bank rate" (rate at which banks borrow reserves from the CB).

To raise hopes that monetary policy can increase real output growth and hence alleviate poverty reduction is a deception, if you will.

The real business cycle theory and its empirical proof was the subject of intense research in the decades of the 80s and 90s. Professor Christopher Sims of the University of Minnesota, using his newly innovated econometric methodology of vector autoregression (VAR), showed that money growth accounted for only 4% of the variations of output growth while interest rate accounted for 40% (1980, American Economic Review). That finding could not be refuted in subsequent research.

In one of my 1988 papers, "Money and the Business Cycle -- Another Look" (Review of Economics and Statistics, Harvard University), I found that neither money nor interest rates directly affect real output -- the channel of monetary and interest rate effects are transmitted to real output through changes in investment spending.

During the same periods, numerous studies have shown that only monetary policy surprises (unanticipated OMOs in the bonds market) have effects on real economic variables. If the CB's policy actions are perfectly predicted by the private sector then monetary policy has no statistically significant effect on interest rates and real

economic variables.

That is precisely the reason monetary authorities all over the world do not indulge in policy deliberations in press conferences and press briefings. For example, the minutes of the US Federal Reserve policy meetings are not publicly available until about two months later.

The BB's recent publicly talked about pressure on banks to narrow the interest rate spread went unheeded, making the BB looked ineffective and powerless.

My August 13 piece, "Monetary policy and inflation targeting," emphasised targeted credit expansion and at the same time pursued an activist monetary policy for inflation targeting. I also emphasised that success of such a policy is contingent upon data gathering and monitoring if the targeted credit is being properly utilised.

World Bank funded BB's Policy Analysis Unit (PAU), that started about four years ago, has been doing some policy analysis with real life data. Not much has changed in the PAU activities since my last seminar presentation in BB's research department in December 2005. Strengthening the PAU with proper accountability would immensely benefit the understanding, transmission and future directions of monetary policy.

Additionally, each of the nine divisional branch offices of BB should have their own Policy Analysis Unit to gather primary economic data covering the entire division, and carry on some basic data analysis and then feed them back to the BB headquarter for further review and analysis.

A nation of 150 million people deserves a central bank equipped with the state of the art econometric techniques of data analysis and highly skilled economists in all areas of research and policy analysis.

(Thanks to Professor Ahsan Habib of Adrian College, Michigan, formerly economics lecturer of Dhaka University, for his review.)

Dr. Abdullah A. Dewan is Professor of Economics at Eastern Michigan University, USA.

Accessing energy to reduce poverty



ABDUL BAYES

BENEATH THE SURFACE

The econometric exercise that has been carried out in establishing a connection between gas and electricity and poverty seems to show that access to gas and electricity could reduce poverty by raising per capita income of households. Taking both gas and electricity, it can perhaps be concluded that access to gas and electricity are required for poverty reduction.

21% of the second lowest quintile have access to electricity.

Most of the households in the top quintile have access to electricity. This means that access of the poor to electricity is very poor in a regime of poor national access to electricity (which is 35% of population).

Bangladesh's per capita electricity consumption of 160 kwh in 2005 was among the lowest in the world. The rate of expansion of electricity

generation and access, though significant, has proven thoroughly insufficient relative to the country's growing needs.

Moving ahead, the policy priorities of the sector would need to focus on implementing commercial and regulatory reforms, including price adjustments and mobilisation of investment.

It can be observed that in the sample areas as a whole, 35% of the households were found to be poor

households. These households earn a monthly income of less than Tk.7000/month and hence fail to meet the minimum requirement of balanced nutrition for household members.

However, a look at the poverty status on the basis of access to public utility services reveals interesting observations. The highest share of poor households is 40%, where the households do not have access to either electricity or gas, in

the control areas. On the other hand, the highest share of non-poor households is 77% in areas where the households have access to both gas and electricity. The lowest share of poor households belongs to areas with access to both electricity and gas.

One of the important effects of access to gas and electricity should be the changes in price levels in local markets. With access to gas and electricity the prices of land and labour tend to go up, while the prices of coarse rice tend to go lower than control areas.

The price of coarse rice increased more compared to areas with access to both gas and electricity. Agricultural and non-agricultural wages appears to have increased in areas where both gas and electricity are available. This might be due to the fact that better infrastructural facilities raise the

demand for labour, thereby resulting in higher level of wages.

Households' capacity to purchase coarse rice is found to be highest in areas where both gas and electricity are available. Both agricultural and non-agricultural wages are higher in these areas, which in turn increases the purchasing power.

Non-agricultural wages in the control areas increased at a lower rate compared to the areas where both electricity and gas are available. Purchasing power appears to have been reduced in the control areas where there is lack of infrastructural facilities, which leads to lower demand for labour. This in turn also keeps non-agricultural wages down.

Information on the costs of fuel was collected as gas mainly helps in cooking at household level. It appears that fuel cost for the

households with access to only electricity is roughly 120% higher compared to costs for the households with access to gas.

If the households do not have access to gas or electricity, the fuel costs seem to be higher by 88% as against the costs incurred by the households with access to gas.

It appears that having access to only electricity increases the probability of being non-poor by almost four times (3.675) compared to households who do not have access to either electricity or gas. When households have access to gas and electricity, the probability of being non-poor is eight times (8.108) as against households without any access to public utility services.

The econometric exercise that has been carried out in establishing a connection between gas and

electricity and poverty seems to show that access to gas and electricity could reduce poverty by raising per capita income of households. Taking both gas and electricity, it can perhaps be concluded that access to gas and electricity are required for poverty reduction.

While the gas-growth-poverty connection is well taken by our policy makers, the implementation of projects to this effect is moving at snail's pace. Bangladesh needs to generate power, from gas and coal, at a much faster pace to make a dent in poverty. Energy reserves are like foreign exchange reserves in the sense that both may cause poverty in plenty unless properly utilised.

Abdul Bayes is a Professor of Economics at Jahangirnagar University. He can be reached at abdulbayes@yahoo.com.