US financial market meltdown



AY good-bye to Wall Street as we knew it, said The Wall Street Journal (WSJ) in an editorial. In a flash, five giant investment banks have "ceased to exist," -- transforming themselves into, or being absorbed by, conventional big banks.

"This has been the worst financial crisis since the Great Depression. There is no question about it," said New York University economist Mark Gertler.

What really has happened with Wall Street? It has been a near earth-shattering -- even historic -week for US and world financial markets. The 158 year old US investment bank, Lehman Brothers, collapsed and the Bank of America bought Merrill Lynch -another Wall Street icon -- in a \$50 billion deal.

Markets were seriously shaken as the American International Group (AIG) -- the largest insurNO NONSENSE

What really set-off the meltdown, and why this matters to the average citizen appears mind boggling -- very intricate, if you will. Almost every expert agrees that much of the debacle is rooted in too much greed-driven risk taken by the CEOs of these and many other firms.

ance company in the world -- was stressed to secure a \$40 billion bridge loan (an interim financing for an individual or business until permanent financing is guaranteed) from the Federal Reserve (the US Central Bank, in short, the Fed) ahead of a possible downgrading of its credit worthiness.

What really set-off the meltdown, and why this matters to the average citizen appears mind boggling -- very intricate, if you will. Almost every expert agrees that much of the debacle is rooted in too much greed-driven risk taken by the CEOs of these and many other firms. Assets -- real or financial -- were over-assessed. loan worthiness of borrowers was over inflated, and credit cards charging maxed out. People were living well beyond what their income and wealth could support.

The crisis originated from the unbridled growth in subprime mortgage -- a loan that didn't meet the legal requirement.

Fannie Mae -- the Federal National Mortgage Association -was created in the 1930s to facilitate homeownership in the US by buying mortgages from banks, freeing up cash that could be used to make new loans. Fannie and Freddie (FAF), which does pretty much the same thing, now finances most of the home loans being

made in America. Although FAF are private companies with stockholders, they're "government-sponsored enterprises" established by federal law. As a result, FAF enjoys special privileges -- the most important is the belief of investors that if FAF is threatened with failure, the government will come to their rescue, because they enjoy implicit government loan guarantee.

In that case, one wonders, how did they get into this mess? The answer is the sheer scale of the housing bubble and the magnitude of the unabated price declines that caused the bubble to burst. The

result is an alarmingly rising rate of delinquency.

FAF drove the explosion of the subprime housing market by buying up literally hundreds of billions of dollars in substandard loans.

By passing up all the old rules, FAF gobbled up the mortgage market. Using unusual leverage, they ended up holding 90% of the secondary market mortgages. That raised their total portfolio of loans to \$5.4 trillion -- nearly half of all US mortgage lending. They borrowed \$1.5 trillion from US capital markets with an "implicit" governmen guarantee of the debts.

This created the current problem for the financial market -subprime lending jumped from around \$35 billion in 1994 to nearly \$1 trillion last year. No real market can have such an

accelerated growth for that long without being fixed. And that's just what FAF were -- fixed. They essentially became a government-run, privately owned, home finance

monopoly.

In the near-term, adverse effects for both developed and emerging markets are unavoidable. Experts predict that the market meltdown has triggered cascading effects:

- · Asset prices have fallen in financial markets around the world.
- · The threat to global economic growth has increased.
- · Volatility in currency markets has surged.
- · Banks will take heightened risk aversion stance, which will restrain banks' access to capital and thus slow down lending.
- · Consumer credit will become more restrictive, making projected global growth of 5%-6% unattainable.

Because of credit tightening every where, tanking stock markets are sinking corporate valuations, and there are fewer investment bankers operating these days.

Financial firms unaffected by the market predicament will be much more cautious in extending credit to normal firms and individuals. So, even for people and firms whose credit standings have not changed much, their cost of the credit is also going to rise.

In their September 18 WSJ article, Senrath, Serena, and Paletta said that the Fed and US Treasury have diagnosed the market virus -over-leveraged financing (debt financing) -- and also found the cure -- which is de-leveraging, that

is, unwinding (undoing) of debt.

During the credit boom, financial institutions and American households went on a spree of borrowing. Between 2002 and 2006, household borrowing grew at an average annual rate of 11% -- by far outpacing the overall economic growth. Financial institutions' borrowings grew by a 10% annualised rate. A multitude of loan defaults -- aggravated by the crumbling housing prices -- made the home value fall below mortgage loan, culminating in foreclo-

To deleverage the process to an end at least three things need to be done, and they're not easy to accomplish all at once.

- Financial institutions and others need to fess up to their mistakes by selling or writing down the value of distressed assets they bought with borrowed money.
- · They need to pay off debt. Finally, they need to rebuild their capital cushions, which have been eroded by losses on those distressed assets.

On September 20, U.S. Treasury Secretary Henry Paulson with the Fed Chairman Ben Bernanke on board proposed a \$700 billion market bailout plan -- the largest intervention in the history of the U.S. financial system aimed at supporting the private sector.

While presenting the bailout

And Wall Street came tumbling down

plan to Congress, Paulson warned that the nation's still-frozen credit markets were very fragile and Congress must act swiftly to pass the package to halt further proliferation of the market meltdown.

But no done deal came through as of Saturday, September 24 Debates about bailout recipients, who would in fact benefit from the anti-crisis measures, erupted in the Congress. President George Bush finished his address to the nation explaining the origin of the crisis and urging a bipartisan passage of the package. Some form of the deal is expected to pass before the market opens on Monday to avert market instability and a potential total collapse of the banking operation in the US.

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Sadqa-e-Fitr

Sadga-e-Fitr or Sadagatu'l-Fitr should be distributed to the poor on the day of Eid-ul-Fitr before the congregational prayers are said. But one may also pay it off during the month of Ramadhan. It can also be distributed after the prayers. It will, however, remain due in his name till it is paid off. It must not, however, be distributed with arrogance or annoyance.

SYED ASHRAF ALI

HE Most Gracious and the Most Merciful Allah has, in His infinite Mercy, fixed a Sadqa (sacrifice) over His bondsmen. After the expiry of Ramadhan and on the rejoicing of breaking the fast (or returning to normalcy), it should be paid as a mark of gratitude. Fitr stands for "return to normalcy," and the Sadga so paid is called Sadga-e-Fitr. The Eid that comes after the month of Ramadan is known as Eid-ul-Fitr, or the "Joy of returning normalcy."

According to Arabic authors the word "Sadaqa" is derived from the verb Sadaqa, "to speak the truth," which is explained by pointing to the fact that the giving of alms by a Muslim is a witness to the truthfulness of his religion. Its proper sense is, therefore, voluntary or spontaneous almsgiving, or what we call "charity."

Arabic authors, however, use the word Sadaqa in two different senses. In the first it is frequently employed as a synonym of Zakat, which is obligatory, and of which the amount is fixed. It is so used in the holy Quran (Surah Tauba, Verses 58, 103]. It is so used also in the Muwatta of Malik Ibn Anas (RA), in which, in the Kitab al-Zakat, Sadaqa is substituted for Zakat.

He does this apparently when it is a case of Zakat upon quadrupeds, but also in other cases. In Bukhari, on the other hand, Sadaga seems to be used for Zakat quite indiscriminately, and the two words are used simultaneously as synonyms. Imam Bukhari uses Zakat where Imam Malik uses

Sadaga on less than five dhwad of she-camels" in the same form as Imam Malik, yet speaks of the Sadaqat al-Fitr where Malik uses the usual Zakat al-Fitr.

The proper use of the word Sadaga is, however, as has been or exceeds the order of the Nisab, said, in the sense of voluntary almsgiving. Ibn al-Arabi defines the Sadaqa as "voluntary Sadaqa is an act of worship arising from free choice mixed with authority; and if it be not so then it is not voluntary Sadaqa, for the man makes it obligatory upon himself, just as Allah makes mercy obligatory upon Himself towards those who repent, and corrects those who do ill in

Sadga-e-Fitr is the alms given on the day of Eid-ul-Fitr. It is Wajib on every free Muslim when he owns property to the value of Nisab. The Nisab of Zakat and Nisab of Sadgae-Fitr are the same, e.g. 54 tolas and 2 mashas of silver or 7 tola 8.5 mashas of gold, or its price.

But there is a difference between the Nisab of Zakat and Nisab of Sadga-e-Fitr. For, Zakat becomes Farz, or obligatory, when a person owns a certain quantity of silver, gold or merchandise. But for Sadqa-e-Fitr being Wajib, all his possessions are taken into account. It is necessary for both the Nisabs to be free from all sorts of burdens of debts and in excess of

real personal requirements. So, if a person has extra clothes other than those clothes used by him, or has some extra utensils of copper, brass, china clayetc., or has an occupied house, or some other property or goods, exceeding his real and personal requirements, Sadaqa; he says "There is no and the value of these things equals



no Zakatis Farz on that, but Sadgae-Fitr will be Wajib. The condition of a one-year duration is also not necessary over the Nisab of Sadgae-Fitr. The payment of Sadga-e-Fitr becomes Wajib even if one becomes possessor of the Nisab the

The payment of Sadga-e-Fitr is Wajib on every person in possession of Nisab. He should pay it from his own side and on behalf of his minor children. But if the minors have their own property, it should be paid from that.

It is sometimes claimed that Sadga-e-Fitr is not Wajib on a person who could not or did not fast in the month of Ramadhan. It is a wrong conception. Sadga-e-Fitr is Wajib on every individual who holds Nisab, whether he fasts or

Sadga-e-Fitr becomes Wajib on Eid day, just after the Subh-e-Sadiq. If a child is born before Subh-e-Sadiq, it shall be paid on behalf of the child. On the other hand, if a person dies before Subh-e-Sadiq, no Sadqa-e-Fitr will be paid from

Sadqa-e-Fitr or Sadaqatu'l-Fitr should be distributed to the poor on the day of Eid-ul-Fitr before the congregational prayers are said. But one may also pay it off during the month of Ramadhan. It can also be distributed after the prayers. It will, however, remain due in his name till it is paid off.

It must not, however, be distributed with arrogance or annoyance The holy Quran has cautioned us in unequivocal terms: "Kind speech and pardon are better than almsgiving followed by annoyance, for Allah is rich and clement."

All kinds of foodgrains (or their price) may be paid as Sadga-e-Fitr. If wheat, (or its flour) is given, it should be 3.5 Ibs per head. If any other foodgrain is given then that should be equal to the price of 3.5 lbs of wheat. If it is given in cash it should be equal to the price of 3.5 Ibs of wheat. This year's Fitra has been fixed at Tk. 66 per head for Dhaka and its adjoining areas.

Sadga-e-Fitr may be given to those persons to whom Zakat may be given. It may be given to many a needy person. On the other hand Sadga-e-Fitr of many persons can also be given to only one beggar or needy person.

The persons, who themselves are in possession of the Nisab of Sadga-e-Fitr, are not allowed to take it from any other person. The descendants of the holy Prophet (pbuh) are also not allowed to accept it. Abd al-Muttalib bin Rabia reported the holy Prophet (pbuh) as saying: "These Sadaqat are only people's impurities (an atonemen for their sins), and they are not lawful for Muhammad or Muhammad's family. (Muslim transmitted it.)

Syed Ashraf Ali is former DG of Islamic Foundation

Turning a deaf ear

One can only imagine the hours that are wasted in complaining, settling the bills, or even finding the complaint center to help make things right. Unfortunately, the general public is failed over and over again by the public service providers in whom trust is reposed to make the lives of the citizenry bearable by providing needed services.

S.S.M. SADRUL HUDA, SEGUFTA DILSHAD and SYED SAAD ANDALEEB

LECTRICITY and telephone services comprise two basic and necessary services for the citizenry. Historically, they have been associated with rampant corruption, mismanagement, and unreliable service provision in Bangladesh.

The organisations responsible for these services are Dhaka Electric Supply Authority (Desa), Dhaka Electric Supply Company (Desco), and Bangladesh Telegraph and Telephone Board (BTTB) These organisations have caused monumental suffering. Recently, two of the three organisations were renamed as Dhaka Power Distribution Company (DPDC) and Bangladesh Telephone Company Ltd. (BTCL), with the objective of improving customer

The Center for Policy Research and Social Responsibility recently undertook two surveys using purposive sampling to assess the opinions of the urban educated group about these two services. Key findings of the BTTB/BTCL survey are presented here. Findings about the services of Desco/DPDC will be presented in a

subsequent article. There were 330 repondents in the BTTB survey. The demographic profiles of the respondents indicated the followings: 45.7% were service holders, 24.7% business persons, 5% housewives, and 24.6% represented other professions; 37.2% belonged to the 21-30 age group, 26.9% belonged to 31-40, 19.9% belonged to 41-50, and 16.0% belonged to 50+.

The male-female ratio was

60:40. The surveyed people had different educational backgrounds: 23.9% of them were not graduates, 33.8% of them have Bachelors degree, 32.3% masters degrees, and 10.0% had other qualifications. The respondents also belonged to different income brackets: 28.1% earned below Tk.10,000 per month, 25.1% are earning between Tk.10,000-20,000,

> average they had 11.3 years subscription experience with BTTB. The preliminary results showed that the subscribers of BTTB experienced a variety of problems. The majority of the BTTB respondents (36.1%) complained about poor connection, followed by inoperative phones (34.1%). Many of the respondents also faced problems of irregular billing (12.2%) and exaggerated bills (17.6%).

27.5% between Tk.20,000-30,000

and 19.3% more than Tk.30,000. On

Faced with the abovementioned problems with services, 90% of the respondents lodged complaints: 61.4% had complained against core service failure (phone is out of order, poor connection), 31.5% respondents complained against support service failure (irregular billing system etc.) and 7.1% respondents complained against misbehaviour of service staff.

It was also found that 70.8% "actually" lodged complaints with the local complaint center, 17.3% with the higher authority, 10.2% with influential relative/friends, and 1.7% with the media. In addition, it was found that 48.1% visited the local complaint center physically, 30.3 % complained by calling,

16.5% sent somebody else to the complaint center, 1.5% wrote letters to newspapers, and 3.6% responded in "other" ways to lodge their complaint.

Unfortunately, 83.6% lamented that the BTTB service staff demanded gratuity from them. Of these respondents, 49.5% mentioned that the demand was direct and 50.5% said the demand was indirect/implied. Surprisingly, 77.0% of them gave in to the demands. It was found that on average the respondents paid Tk.580 as gratuity. The refusal to pay gratuity led to noncooperation of the service staff for 64.4% of the respondents.

According to 58.7% of the respondents, BTTB did not take their complaints seriously, while 65.9% respondents' past experience with complaining was not good. According to the findings, 30.9% of the respondents expressed their dissatisfaction about the working hours of and access to the complaint center. Interestingly, 27.1% did not know where to complain. The majority of the BTTB (69.5%) respondents also reported the recurrence of the problem shortly after a response from the service people.

According to only 31.2% of the respondents, the bills presented by BTTB were accurate and only 30.0% agreed that monthly bills were delivered on a regular basis. It may also be noted that 67.6% of the respondents expressed their dismay at the payment procedures, which they found wanting, very tiring and time consuming, and 77.8% of the respondents also believed that record keeping of billing information at BTTB was not satisfactory.

Only 10.8% of the respondents indicated that the service provider performed the service properly the first time and 10% recieved the service at the time when BTTB promised to do so. Also, only 10.9% respondents of BTTB found the concerned officers in their chairs.

In limited cases (only 12.4% of the respondents), the employees assured the respondents that the rectly and only 17.5% of the respondents felt secure in their transactions with BTTB. Also, only 12.9% of the respondents had trust in the employees of BTTB, and only 18.1% of the respondents of BTTB considered the employees as com-Finally, according to the respon-

problem would be resolved cor-

dents of BTTB, only 12.4% were, overall, satisfied with their complaint handling behaviour and 13% were satisfied with the service provided. Only 13% of the respondents of BTTB agreed that their complaints were satisfactorily resolved.

Public services are vital to the effective functioning of a society. When delivered appropriately and as per requirements they can help raise the productivity of the nation. One can only imagine the hours that are wasted in complaining, settling the bills, or even finding the complaint center to help make things right.

Unfortunately, the general public is failed over and over again by the public service providers in whom trust is reposed to make the lives of the citizenry bearable by providing needed services. Instead, the public is faced with harassment, ineptitude, billing miseries and concomitant failures.

The findings suggest the various areas in which the public service providers can significantly improve services. After 37 years of independence, will someone stand up for the public? Will someone restore faith in the public service delivery system? Will we see better days ahead?

The numbers presented herein may serve as a benchmark against which the quality of services must be calibrated regularly and shared with the public. In so doing, the new organisational form -- BTCL -will have been tested as a successful idea or another disappointment in the sad saga of service provision to the general public.

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Why most office workers would be better off in prison



used to live near a prison. which helped me put my life into There was a guy on the top perspective. floor who used to wave his hand at me through the bars. Actually, it wasn't just his hand.

But the thing that struck me was that he always looked so happy. For some reason, this annoyed me intensely. I wanted to shout: "Oi, you: stop being happy." But then I realised that I would sound like my former employers, who were always hollering that at me.

Looking through the barred windows as I walked past, I absorbed numerous lessons, 1. In prison, he spends most of

his time confined to a space measuring three metres by three metres. At the office, I spend most of my time confined to a cubicle

early night every night. At the office, I work late so often I'll probably end up with an ulcer.

3. In prison, he gets time off for good behaviour. At the office, I get extra work assignments for good behaviour.

4. In prison, he gets all the food and drink he needs prepared for him by trained catering staff, three times a day, seven days a week. At pets. the office, I can help myself to free water from the water cooler.

5. In prison, he can watch telemeasuring 1.5 metres by 1.5 vision and read through a library of books. At the office, I'll get 2. In prison, he gets a healthy, sacked if I get caught watching a clip on YouTube.

6. In prison, he'll spend a lot of time in quiet contemplation about the important things in life. In the office, mindless inconsequential

activity fills my every second.

7. In prison, he gets a toilet to

toilet with a building-full of people less toilet-trained than my 8. At the office, I spend more

himself. At the office, I share a

money than I can afford making sure my clothing matches that of my colleagues. In prison, everyone gets free, colour co-ordinated

12. In prison, he never has to 9. In prison, there are sadistic, worry about paying bills for evil creatures called warders who utilities and other things. In the will torment him. In office life, life of a modern office-worker, I there are sadistic, evil creatures worry about paying bills all the called employers who torment time.

13. At the office, I spend hours 10. In prison, one's working every day wading through a sea of

after it's dark.

days are short and sweet. In my spam. In prison, he just gets one working life, I arrive at the office small square of Spam a week, on before the sun has risen and leave Tuesdays, with a side salad.

14. In my work life, I pay a for-11. In prison, he doesn't have to tune for a gym membership, but take work home with him. In my never have time to go. job, I arrive every morning with a

In prison, the gym is free and he fat briefcase and leave with a fatter has plenty of incentive to keep himself in good shape, especially when taking a shower.

> 15. In my office life, I often feel pressured to be in three different places at once. In prison, this is probably not really an issue.

Comment on this piece at our columnist's website: www.vittachi.com.