

Possible ripple effects of global crisis

We need to raise our antenna high

ON the back of incredible bankruptcy of US financial institutions, the world capital market is caught in a dire state of collapse. Share prices of stock markets in US, Japan, Hong Kong, Singapore and Mumbai have registered sharp falls. Panic has gripped the financial world and the chain effect is startling and unprecedented, even though fundamentals in all the advanced economies are not equally bad.

We note though, the G-8 has unveiled a five-point plan of action in a bid to coordinate their response to the global financial crisis. The global approach should eventually be inclusive of the concerns of LDCs like Bangladesh, although these are, at the moment, peripheral to their principal agenda.

So far as the possible knock-on effects of the recession on our economy go, we are more or less insulated from the world capital market. But let's not wax complacent on the insulation factor. True, we don't have foreign investment in our capital market and institutional investment in overseas banks is not of any worrying proportion. But of course, if the stock market shares in a neighbouring country like India receive jolts this might put our investors under some mental stress. Dhaka and Chittagong exchanges have had some of their share indices going a bit down and that's where the Securities and Exchange Commission should counsel the investors against unnecessary panic. Bangladesh Bank, for its part, would do well to reduce the interest rate to bolster investment.

The most important concern, however, is we have had growing export markets in the US and other economies that have taken a severe battering from the financial crunch and the resulting recession threatening to aggravate into depression. For the RMG sector and some other export items, the predicted reduced consumer spending in the West might not lead to a drop in the demand for our merchandise because of their low prices. Still, we ought to closely monitor the winter market and be focussed on exporting knitwear.

Simultaneously, we have to keep a constant tab on manpower export and remittance earnings so that any change in the flows does not escape our radar screen with corrective measures taken to repair any chink.

The think-tanks, research organisations, media, government, Bangladesh Bank, commercial and foreign banks, Securities and Exchange Commission, government's regulatory bodies and the chamber and industry leaders must interact to put in place a contingency framework to meet the challenges of recession.

The Nobel Peace Prize

Martti Ahtisaari has richly deserved the honour

THE Nobel Prize for Peace this year has been won by a man who has for three decades made it his particular business to put out forest fires in some of the worst of global trouble spots. Martti Ahtisaari, by all calculations, should have come by the award years ago. But, as the recent example of Jimmy Carter shows, men who deserve the prize at particular points in their lives must wait until such time when corrective measures are taken. There are, again, all the tales of people who should have won the Nobel but never did.

Ahtisaari has been deeply involved with neutralising such crises as those that have left lives mutilated in Namibia, Indonesia and Kosovo. The unique aspect of Ahtisaari's efforts to make the world a safer place is that where other winners of the prize have been focused on single areas or single themes, he has straddled continents in his desire to set disturbed lives return to being normal. Namibia, which the former Finnish president cites as the highlight of his career, remains a symbol of the steadfastness and resilience with which he has worked. In the event, it took a decade for Namibia to find a way out of its bind. But when it eventually gained freedom in 1990, Ahtisaari could justifiably take pride in his contribution to the decline of colonialism. If Namibia was the beginning, Ahtisaari's efforts towards peace in Indonesia's rebellious Aceh province was a mid-point crisis he was finally able to resolve when Jakarta and the Free Aceh Movement reached a satisfactory deal. His work in Northern Ireland, especially with regard to IRA arms inspections, was one more feather in his cap. But there was disappointment in Kosovo, where political intransigence came in the way of a solution to the crisis.

The Nobel Peace Prize this year has gone to one who has deserved it enormously. Martti Ahtisaari is a potent living symbol of peacemaking in an increasingly troubled world.

Meltdown



KAZI ANWARUL MASUD

THE recent US meltdown has caused global disquiet and resulted in a variety of political and economic responses from the leaders of developed countries. Germany, the engine of growth of the European Union, has assumed responsibility for deposits in all banks to reassure the people that the US virus can be staved off. Britain's plan includes £250 billion for inter-bank loans to be treated as a contingent liability, raising Bank of England's special liquidity scheme to £200 billion pounds, and a £50 billion pounds bank recapitalisation fund to strengthen banks' capital position.

Despite the support extended by Obama and McCain to the Senate bailout bill, and subsequent

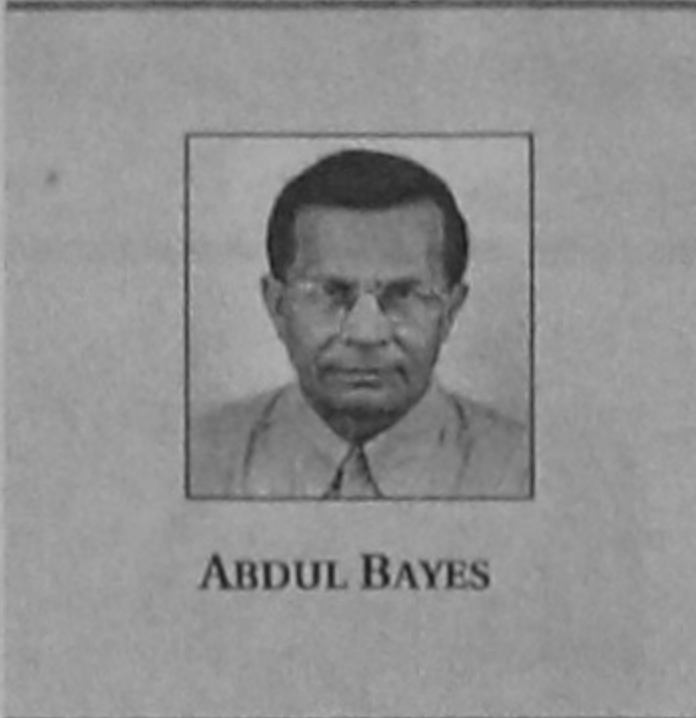
GOING DEEPER

If the \$700 billion proves to be insufficient to enthrone US consumerism, then exports from developing countries, already suffering from adverse terms of trade, will suffer, with multiplier effect on employment, reduced sale of domestic products, less remittance by migrant labour (an important foreign exchange earner for Bangladesh that received 27% remittance from the US and European countries in the last fiscal year), and lower capital inflows from developed economies.

approval by the House of Representatives of its own version of the bill, it is unclear even after the second presidential debate how assured the American public will be with the bailout of Wall Street despite some "sweetener" given to the people at large because the crisis in the first place was caused by the inadvertent or deliberate misguidance by the banks and sub-prime lenders of people who just could not have possibly paid up their debts.

Professor Nouriel Roubini of NYU Stern School of Business was one of the first to predict US recession (defined by the IMF as global

Impact of recent crisis on poverty



ABDUL BAYES

VARIOUS estimates on poverty are now available. The consensus conclusion is that the recent economic crisis has thrown more people under the poverty line than before. One multi-lateral donor agency estimates that an additional 4 million people went below the poverty line due to recent turmoil. Some economists put the figure at 10-20 million.

Respecting all such attempts, we thought it wise to submit a different scenario drawn upon a Brac-survey of repeated sample households for 1988, 2000, 2004, and 2008. Since the estimates are derived from panel data, we claim that the estimates are likely to be more accurate. Besides, in our analysis, we shall also draw upon a

recent presentation in an international seminar by Dr. Mahabub Hossain on the Pathways out of Poverty.

At the very beginning, the readers are requested to remember few things. It is not true that economic crisis always cripples poor households at large. Some lucky ones could withstand the onslaught by ways of higher wages, accessing social and financial capital in and around, renting-in land or banking on government dolls at their door-steps, etc.

The unlucky ones would face the fire in the absence of these factors. Second, roughly one-third of rural households always remain poor (chronically poor) no matter whether the sun rises or sets. About half of the rural households tend to

BENEATH THE SURFACE

By and large, we can possibly conclude that 10 million people were added to the vast pool of already existing poor of which 6 million joined last year and the other 4 million during 2004-2006. In other words, the national and international crises of 2006-07 pushed an additional 6 million people into poverty in 2007 while another 4 million had already been added in the previous two years.

remain non-poor through thick and thin. Therefore, the movement in and out of poverty relates to one-fifth of households. And finally, it would be erroneous perhaps to attribute the increase in incidence of poverty only to recent international price hike and domestic disturbances.

We shall skip poverty trend for 1988-2004, because all available documents relating to incidence of income poverty confirm that poverty has declined over this period. They differ on the degree of decline in poverty levels, but agree on the positive outcome.

The reasons for a decline could be comfortable rates of economic growth, expansion of communication and credit networks in rural areas, downward movement of rice

prices, improvement in schooling conditions, etc.

The "economic holocaust" in fact took place during the period 2004-2008 since we observe that poverty level picked up since 2004. For example, our estimates show that head-count index shows that 47% of the rural households remained poor in 2007 compared to 44% in 2004. This means that 2 million more households (approximately 10 million more people) went below the poverty line during this period.

To confirm our conclusions, we need to note that during 2004-2008, 19% of households became poor from a non-poor situation (descent) while 14% moved from poor to non-poor condition (ascent). This also shows that roughly

5-6% of rural households experienced a negative shift in poverty status.

But the "holocaust" hovered around 2006 and 2007 with soaring prices of rice and energy, two consecutive attacks from natural calamities, infringements on formal and informal sectors in the name of anti-corruption and cleanliness, political instability, etc.

How many have fallen into poverty between 2006 and 2007 due to these factors? It is very difficult to answer this question since we do not have data separately for 2006. However, we had a question to the respondents with respect to economic condition over the last one year (2006-07): improved, same, or deteriorated?

We observe that 60% of the poor reported that their economic conditions deteriorated for the last year, while all of them reported that economic conditions improved between 1988-2004. Besides, the major reasons for deterioration were thought to be steep rise in rice prices and natural shocks both of which haunted the households between 2006 and 2007.

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already existing poor of which 6 million joined last year and the other 4 million during 2004-2006. In other words, the national and international crises of 2006-07 pushed an additional 6 million people into poverty in 2007 while another 4 million had already been added in the previous two years.

Mahabub Hossain seems to believe that traditional tools to poverty reduction are becoming "unsuccessful" and bringing only "peripheral" changes. For example, occupational mobility matters very little these days since low-productive non-farm sector could hardly sustain livelihoods. Nor a shift from agricultural labour to farming serves the soup to the poor in the presence of low return from tenancy.

Therefore, the "successful" strategies should embrace, inter alia, geographic mobility, increase in earning members for the households, increase in education for earning members, and increased use of MV rice. The final factor is access to electricity that has tremendous effect on poverty reduction.

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Legacy III: Poverty reduction

It is Americans like me that are angry at Bush for sacrificing our welfare to improve the lot of the Asian and African poor. He had no right to do that! I have a right to criticise him for these actions; but it baffles me why Asians are so against Bush when he has done so much for their economic prosperity.

FORREST COOKSON

GEORGE W. Bush is a very unpopular man throughout the world. His approval ratings are low in Europe, the US, and in most Muslim countries. But educated men and women should know better! George Bush has done more to eradicate poverty than any other human being in history.

During his eight years tenure in office 800 million to 1 billion persons were lifted out of poverty largely due to his economic policies. Without the particular direction he took, the improvements in economic welfare through poverty reduction would have reached not more than 150-200 million persons. I argue in this article that it was Bush's economic policies that were critical in this dramatic reduction in poverty levels. Of course Bush's economic policies did not achieve this without many other things happening, but the Bush policies were a necessary, if not sufficient condition, for this great poverty reduction!

The second development area where Bush has brought about dramatic change is in Africa. This is one continent where Bush is widely appreciated and admired. Most sub-Saharan African countries are doing significantly better in economic

growth, gender equality, health measures -- (particularly HIV/AIDS), education, and nutrition. Democratic political systems are emerging as a consequence of Bush's initiatives. There is a very long way to go but for the first time in 25 years signs of hope are emerging that sub-Saharan Africa can restart its economic and political development that has so long been stalled.

Most of this change was achieved in the past eight years with the US playing the key leadership role. The success of Bush's African development program is remarkable for it being unexpected. For many development experts, Africa was a lost cause. But taking things step by step, Bush has managed to generate the hope for an African Renaissance. Unlike Latin America and Asia, in Africa George Bush is a hero, as he has led the drive to tackle the critical development issues. The press in South Asia has largely ignored these positive actions that have begun to reduce the very high African poverty levels.

What has George Bush done that one should credit him with success? The key to poverty reduction is rapid economic growth. To trigger and sustain such growth requires rapid export growth. During Bush's

eight years, US economic policy undertook to run a very large deficit in its balance of payments, accepted the wish of Asian nations to maintain large surpluses and allowing Asian central banks to invest heavily in US government securities. This was the critical action needed to support the rapid growth of exports that propelled Asian growth. While this had been going on for some time, under the Bush administration it became much larger.

If Mr. Bush had acted to restrict this unbalanced world economy, India and China would have growth at more modest rates of 5-6% and Bangladesh at 4-5%! Without the tremendous increase in exports of goods and services absorbed by the US, the economic outcome would have been much different, and the progress in poverty reduction would have stalled.

Of the billion persons in China and India lifted out of poverty, most would have remained below the poverty time in the absence of Bush's policies. The export boom in Bangladesh was more modest, but the rate of poverty eradication doubled, so that about 7 million more persons were lifted out of poverty. The poverty reduction is not caused by special projects and policies but by economic growth. "Pro-poor growth" is redundant;

when an economy grows faster more are lifted out of poverty.

Mr. Bush's policies have done considerable harm to the United States. In effect he did what South Asia leftists are screaming for -- he sacrificed the economic welfare of Americans to provide an opportunity to the Chinese and Indian poor to rise! Rather than criticise Bush, India and China should see Bush as a saint -- the man who did more for their people than any of the politicians in those two countries.

Nehru and Mao harmed their nations with wrong economic policies and plunged their people into decades of poverty. Both stand condemned for the terrible human cost imposed on their people. In contrast, George Bush helped the down-trodden poor in Asia, while the intellectuals denounced him at conferences he paid for!

We will now see the consequences. The American economy will recover, but our new leaders will demand economic frugality. The American balance of payments will move rapidly into equilibrium with a small deficit or surplus on current account. This will slow down economic growth all around the world, but this will not help.

The balance of payments constraint is simple:

Current account surplus (deficit)	+ Private capital account surplus (deficit)	= Net change in reserves including official capital inflows (negative)
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For the United States the current rough position is as follows:

-\$500 billion	+\$50 billion	= -\$450 billion
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The deficit on the current world stagnates. The rest of the

account reflects the great imbalance between imports and exports. The change in the capital account shows the US private sector exporting a net \$50 billion to the rest of the world. The \$450 billion is the purchase of US government securities or their equivalent by central banks. The coming few years will see the change in reserves equal to zero. The American current account deficit will have to fall to the size of the net private capital account outflow.

A slower world economy, unfavourable exchange rates and more cautious behaviour will restrict the capital account to almost zero. This will force the current account deficit to near zero. This is only possible with a very weak dollar. This will reduce exports to the US and cause serious setbacks to most Asian economies. If foreign central banks withdraw money from the US, then the current account of the US will have to become more positive to enable this to happen. This will reduce exports to the US even more. On experience to date, this will slow Asian economic growth even more.

We will then see the reverse of the past decade: The US will export to the rest of the world! The US workers and owners will prosper, while the rest of the

world can protect itself by restricting trade, but that simply leads to an even worse economic situation with reduced employment and lower productivity. Nations may return to failed import substitution strategies.

Brazil, India, China, Russia and Bangladesh will all long for the days of George Bush. But it will be a long time before this new US economic position will change. The shift of the US to become a net creditor in the world will cause a protracted period of slow growth and may will lead to an increase of poverty. It need not, but so far no Asian country has solved the problem of achieving rapid economic growth without rapid export growth.

As for the owners of oil and gas resources, with a slowing world economy oil prices will fall sharply. The strategic importance of the Middle East will decline and in a sense the rest of the world will not be much concerned. Remittance flows to Bangladesh will decline when the Middle Eastern countries are poorer. Commodity prices will weaken. The Bangladesh economy will face slower growth but will be able to avoid catastrophe.

It is Americans like me that are angry at Bush for sacrificing our welfare to improve the lot of the Asian and African poor. He had no right to do that! I have a right to criticise him for these actions; but it baffles me why Asians are so against Bush when he has done so much for their economic prosperity.

Forrest Cookson is an economist.

developed countries have injected huge amounts into the banking system and secured deposits of the people to prevent a run on the banks, developing countries may not be enthusiastic enough to buy US Treasury bonds (China reportedly has billions of dollars of US bonds).

German Chancellor Angela Merkel appears to be in the minority who are asking for accountability from the top management, who have failed not only their creditors but have also brought the world to this stage. The US Congress bill authorises the treasury secretary to inject billions of dollars into the money market and ailing banks, and also ensures US citizens that the bailed out firms will not be allowed to reap the benefit of their failure. It is despairing to note that some CEOs would take back home millions of dollars in benefits and severance pay for running the firms they led to the ground.

The meltdown also has effects on democracy and development. Nobel laureate Joseph Stiglitz, distinct from his fellow travelers Arthur Lewis and Simon Kuznets who believe that inequality and consequent savings by the rich

would eventually lead to higher growth and have trickle down effect to the poor, did not believe that market economy would necessarily lead to social justice or even economic efficiency.

The US meltdown may raise questions about the efficacy of unbridled capitalism due to lesser role of the government in line with the conviction of Adam Smith that economies work best when government does not interfere with the free market's "invisible hand" or the alternative of greater state intervention that while ensuring fairness may affect the sustainability of democracy that both Stiglitz and Benjamin Friedman think could be a byproduct in poor countries.

Since governments are elected to provide social goods, and given Marxian criticism that the right to private property has an inherent contradiction with greater welfare of the general people, the "visible hand" in the form of governmental intervention in the market mechanism to control the greed of the capitalists has to be present. Lax supervision in the case of the US has brought immense grief to the largest economy in the world, and

beyond.

If the \$700 billion proves to be insufficient to enthrone US consumerism, then exports from developing countries, already suffering from adverse terms of trade, will suffer, with multiplier effect on employment, reduced sale of domestic products, less remittance by migrant labour (an important foreign exchange earner for Bangladesh that received 27% remittance from the US and European countries in the last fiscal year), lower capital inflows from developed economies, tightening of loan conditions in developing countries, reduction in domestic investment, etc.

Beyond the obvious economic losses the world will sustain, the financial meltdown will perhaps cause greater damage to Reaganism/Thatcherism that had dominated global economic policies for decades. Francis Fukuyama sees "a more intangible, yet potentially much greater cost to the United States." He argues that the Reagan era of low taxes, though the policies were appropriate for that time, had outlived its utility with the onset of the Asian financial

crisis of 1997-98, and the staggering and unsustainable US trade deficit -- \$700 billion a year by 2007. The vanishing of \$1 trillion in the stock market in one day, and the scale of the Wall Street crack up, has strengthened the critics' branding of American prosperity as "cowboy capitalism."

The other US idea, democracy, has certainly taken a hit due to the Bush administration's invasion of Iraq under false pretences, and the despicable atrocities committed at Abu Ghraib and Guantanamo Bay. Making international law subservient to domestic US law will, in all certitude, bring to an end US "soft power," universally admired for such a long time, a point emphatically made by Barack Obama in the second presidential debate.

In the final analysis, the US meltdown is unlikely to be replaced by the Chinese or Russian model of strict regulation and governmental oversight because a global meltdown, should that happen, is not expected to be selective by sparing some and punishing others.

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