

The end of capitalism ?

The responses to the crisis suggest that there will be an expansion and strengthening of the regulatory role of public authorities in the financial sector, but the real economy will remain market based.

MIRZA AZIZUL ISLAM

Many analysts view the current global financial crisis as a failure of market-based capitalist principles. Some have gone to the extent of speculating that the failure will lead to the re-emergence of socialist economic management.

It is evident that the failure of financial markets is the principal villain in the story of the present crisis. That the financial sector is prone to market failure and associated booms and busts is well-known. There are certain inherent characteristics of financial markets which expose them to such volatility.

The first of these relates to asymmetry of information. Lenders know far less about the intrinsic solvency of the borrowers than the borrowers themselves. The risk assessment by lenders is thus imperfect, leading to assumption of excessive risks.

Second, financial sector is often characterised by what is known as adverse selection. Borrowers who gamble on high-risk, high-yield ventures offer higher return and are serviced by the financial institutions at the cost of good borrowers who would like to engage in low-risk, low-yield ventures.

Third, financial sector institutions tend to be pro-cyclical in their behaviour. During periods of rising demand and increasing asset prices, they push more credit, adding fuel to the bubble. Once the bubble bursts, they reduce the supply of credit, accentuating the downward spiral

of consumption and investment.

Fourth, there is a moral hazard associated with the financial institutions. Many of them, particularly systemically important bigger ones, thrive under the notion that they will not be allowed to fail. In the event they run into trouble, they will be bailed out by public authorities.

In view of the above characteristics, it is not surprising that even before the present crisis many countries including the US experienced quite serious financial sector problems, requiring large sums of public money for bail-outs or other corrective measures.

These included Argentina, Chile, Spain and the US in the 1980s and Finland, Indonesia, Japan, Malaysia, Mexico, Republic of Korea, Sweden, Thailand and Venezuela in the 1990s. What distinguishes the present crisis is not its severity, but its simultaneity affecting many countries at the same time -- a consequence of globalisation of financial markets.

There is no doubt that the primary cause of the present meltdown is the abject market failure in the financial sector. But the public authorities (both governments and central banks) cannot be absolved of their failure either. This occurred in several ways.

First, there was a complete lack of appreciation of the severity of risk exposure created by complex debt securities and newer types of financial institutions which did not conform to the norms of traditional banking practices. The result



To the delight of Marx.

was that the vast swathes of financial markets were left outside regulatory purview.

Second, the credit and asset bubbles were fuelled by loose monetary policies pursued over long periods of time in an apparently low-inflation environment.

Third, a related failure was that the regulators did not explicitly take into account the bubble of asset prices in assessing sustainability and the likelihood of an impending burst.

Above all, the public authorities failed to draw lessons from the past experiences of financial crisis and to initiate preemptive measures. They woke up only after the manifestations in the forms of defaults, credit crunch, reduced consumption and investment, decrease in the production of goods and services and aggravated unemployment.

The late awakening has elicited a wide variety of responses which fall into one or more of the following categories:

- Reduction of central bank interest rates known variously as discount rates, policy rates etc.
- Widening categories of assets to be furnished as collaterals, including mortgage-backed securities, for borrowing from central banks.
- Expansion of types of institutions eligible for access to discount windows to include investment banks.
- Provision of cash loans to troubled financial institutions under new lending programs.
- Provision of financial support to facilitate mergers and acquisitions of weak financial institutions.
- Lengthening maturity periods of loans from discount windows.

- Provision of guarantees against poorly performing assets.
- Swapping of government bonds for hard-to-trade mortgage backed securities.
- Extended guarantee of bank deposits, rising up to 100 per cent in some cases.
- Assumption of liabilities of financial institutions in the national budgets.
- Injection of new capital into financial institutions by governments/central banks.
- Full-scale nationalisation of selected financial institutions or quasi-nationalisation through injection of government capital.
- Loans to selected large-scale manufacturing industries, notably in the automobile sector.
- Large fiscal stimulus by both developed and many developing countries in the forms of reduction of income and consumption taxes, deferred payment of taxes by companies, cash grants to families and issue of shopping vouchers to increase consumption, government support for technological upgradation and workers' training, and vastly increased public expenditure on transport, energy, environment, health and education.

It is evident that the above responses are primarily aimed at: (i) improving the solvency of financial institutions and thereby enhancing their credit disbursement capacity, (ii) stimulating domestic demand for both consumption and investment goods and thereby demand for credit as well, and (iii) providing succour to hard-hit families.

There have been very few instances of nationalisation or quasi-nationalisation (notable among these are Fanny Mae, Freddie Mac, AIG and Citibank in the US and Northern Rock and Hypo Real Estate in the UK). Such cases have remained confined to financial institutions. No manufacturing concern has yet been nationalised,

nor is there any discussion towards this end. In fact, most of the measures so far adopted are in the nature of market enhancing or market strengthening.

What is likely to happen in the days to come is that the public authorities will take a harder look at their regulatory regimes affecting the financial sectors. A wider variety of institutions and instruments will be subjected to regulatory discipline. The institutional architectures for administering and monitoring compliance with the regulatory requirements at the national level may be revamped.

In particular, there will be reforms to bring about greater centralisation of regulatory functions, or at least improved coordination among authorities in countries where multiple regulators operate. Some mechanisms may be put in place to facilitate greater exchange of information and perhaps even heightened cooperation among national oversight authorities.

There is some loose talk about establishing a new international financial architecture to complement or supplant the Bretton Woods institutions. But no concrete ideas have yet emerged. Similar talks in the wake of Asian crisis of the 1990s have led to no result beyond some swap arrangements among some East and South-East Asian countries. The chances of the emergence of a new international architecture which would require a consensus among large number of nations appear to be no brighter this time around.

To sum up, the reforms will remain largely limited to the financial sectors. I am convinced that the ideological zealots who may be dreaming of the re-emergence of socialism as reaction to the stress created by the market dominated systems are destined to be disappointed.

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The most tragic night in our history

We had guessed that the Pakistanis were killing time, but we were not ready for treachery of this magnitude. There were rumours galore. Neighbours gathered and talked in fear and worry. Is Bangabandhu alive? Are our fearless student leaders alive? News of the ruthless Shakhari Bazar killings reached us and made us sad.

JUNAIDUL HAQUE

The night of March 25, 1971 is the most tragic, and the saddest, in our history. Fierce animals in the form of Pakistani soldiers jumped on the sleeping citizens of Dhaka. Nearly twenty five thousand people were killed in only a few hours.

Bengalee soldiers, policemen, political workers, students, teachers, rickshawallahs, street people, slum dwellers -- no one were spared. Even Rokeya Hall was mortared. The best minds of the Dhaka University were killed like insects.

I feel that the genocide of March 25, 1971 dug Pakistan's grave. The people of Bangladesh then plunged into a war of freedom with full might. The great crime of killing thousands of innocent Bangladeshis couldn't go unpunished.

Bangabandhu Sheikh Mujibur Rahman, did not leave his residence but asked his associates to go into hiding. He courted arrest to save Dhaka from total destruction. His close associates formed the Bangladesh government in Mujibnagar on April 17, 1971 and successfully led the liberation war.

Our people were so united and determined that we never had any doubt that we would be free. I remember with pride that, on hearing about the formation of the Bangladesh government over the *Swadhin Bangla Betar Kendra*, even school kids like us jumped in glee, filling the ether of our village with spontaneous cries of *Joy Bangla*.

I was in my mid-teens in 1971. My mind was restless with thoughts of the country's future. Our school was closed and I would remain glued to newspapers. I used to walk aimlessly, and worried a lot during those days. I would try to collect news and understand what was going on.

On the day Yahya Khan announced the postponement of the National Assembly session, I was watching the cricket match between the Commonwealth XI and Pakistan. Within moments, part of the western gallery was put on fire, the match was abandoned and Dhaka city was seething with anger.

The crowd was shouting full-throated slogans -- "*Joy Bangla*," "Prepare bamboo sticks/Make Bangladesh free," and "*Our thikana is Padma-Meghna-Jamuna*." Our national unity then was the best in our

history, and its chief architect was Bangabandhu himself. The widely respected Maulana Bhashani stood behind him like a solid rock. From March 1, Bangladesh was run by Bangabandhu.

I have vivid memories of March 25, 1971. I was walking through the Nawabpur Road at around noon, sad and thoughtful. Will the Mujib-Yahya talks end positively for us? I saw Nabi Chowdhury, who was a DSP then. He looked worried. He was telling passers-by to go home and remain careful.

He told me the same, smiled wryly and added that the Pakistanis were most angry with the young people of Bangladesh, mainly the students. I am sure he had no idea of the fierce attack that the Pakistanis would launch on the Rajarbag policemen that midnight. Nabi Chowdhury died a few years back. Whenever I think of March 25, 1971 I remember him and his warning.

I go to my school in the afternoon and meet my friends. We don't play. We speculate about our future. I read a little in the evening, have an early supper and go to sleep. I miss the massive machine gun firing and the mortar shelling after midnight. My parents were awake. They let me sleep, but they spent a sleepless night trying to understand what was going on.

At dawn, all of us were awake. We were trying to grasp the magnitude of the genocide. I remember one small incident very clearly. I saw dozens of crows sitting on the electric wires and shivering like anything. Shivering in the warmth of March! The genocide was unprecedented in their eyes too. I have never seen trembling crows before or after March 26,

1971. That morning was certainly the saddest in our history.

We understood that it was a military crackdown and that the Mujib-Yahya talks had failed. We had guessed that the Pakistanis were killing time, but we were not ready for treachery of this magnitude. There were rumours galore. Neighbours gathered and talked in fear and worry. Is Bangabandhu alive? Are our fearless student leaders alive? News of the ruthless Shakhari Bazar killings reached us and made us sad.

I heard Yahya Khan say that Sheikh Mujib wanted to break up Pakistan and this "crime" deserved punishment. My young limbs trembled in anger and hatred. Who was the criminal? Who was to face punishment? I suddenly had a clear vision that Pakistan was going to get truncated. Independent Bangladesh would emerge. And the wining and womanising general would be dumped into the dustbin of history.

Bangladesh overcame great suffering, and emerged gloriously as an independent nation on December 16, 1971. Bangabandhu's inspirational leadership, his associates' political wisdom, the great sacrifice of the freedom fighters, and the help of the Indian people and government will be long remembered with gratitude by us.

Unfortunately, our youngsters can't learn the true history of our liberation war from their textbooks. So I shall follow popular writer Muhammad Zafar Iqbal and urge my readers to read the correct history of our liberation war from reliable sources. Why not read our war literature? The *swadhinata* poems of Shamsur



The thunder of March 25.

Rahman in his *Bondi Shibir Theke*, the brilliant novels of Syed Shamsul Huq, Rahat Khan, Akhteruzzaman Elius, Mahmudul Huq, and even the popular stories of Humayun Ahmed and Zafar Iqbal. We can read the plays of Syed Shamsul Huq and Selim Al Din. Jibon O *Rajnaitik Bastobota* is a masterpiece on 1971 by Shaheedul Zahir.

The brilliant memoirs of Justice Abu Saeed Choudhury, Jahanara Imam, Abdul Gaffar Chowdhury and Belal Mohammad deserve our attention too. Also the thought-provoking essays of Serajul Islam Choudhury, Sardar Fazlul Karim,

Borhanuddin Khan Jahangir, Anisuzzaman and the like.

A liberation war is not a mere war. It has a great influence on the psyche and the lives of human beings. Wasn't the best novel of the world, *War and Peace*, written on war and its effect on the human mind?

I, a modest writer of fiction, also dream of writing a novel on 1971. Till my dream comes true, I shall go on thinking and dreaming about it. I owe it to the martyrs of 1971.

Junaidul Haque writes fiction and essays.

Time to rebuild trust

It's time to start rebuilding the trust. Let's start this long and difficult journey by instilling a sense of accountability and gratitude among our trainee physicians.

RUMI AHMED

I teach applied lung physiology to over 200 first year medical students in the United States. Every year I start the class with a confession and an apology. My students pay \$40,000 a year only as tuition. An overwhelming majority of these students finish medical school with an average loan of \$200,000.

I confess to my students that I had to spend only \$1 for my medical diploma. I explain that I paid a total of Tk.54, i.e. Tk.9 a year, for my medical education. I tell them that the poor people of my country heavily subsidised my education.

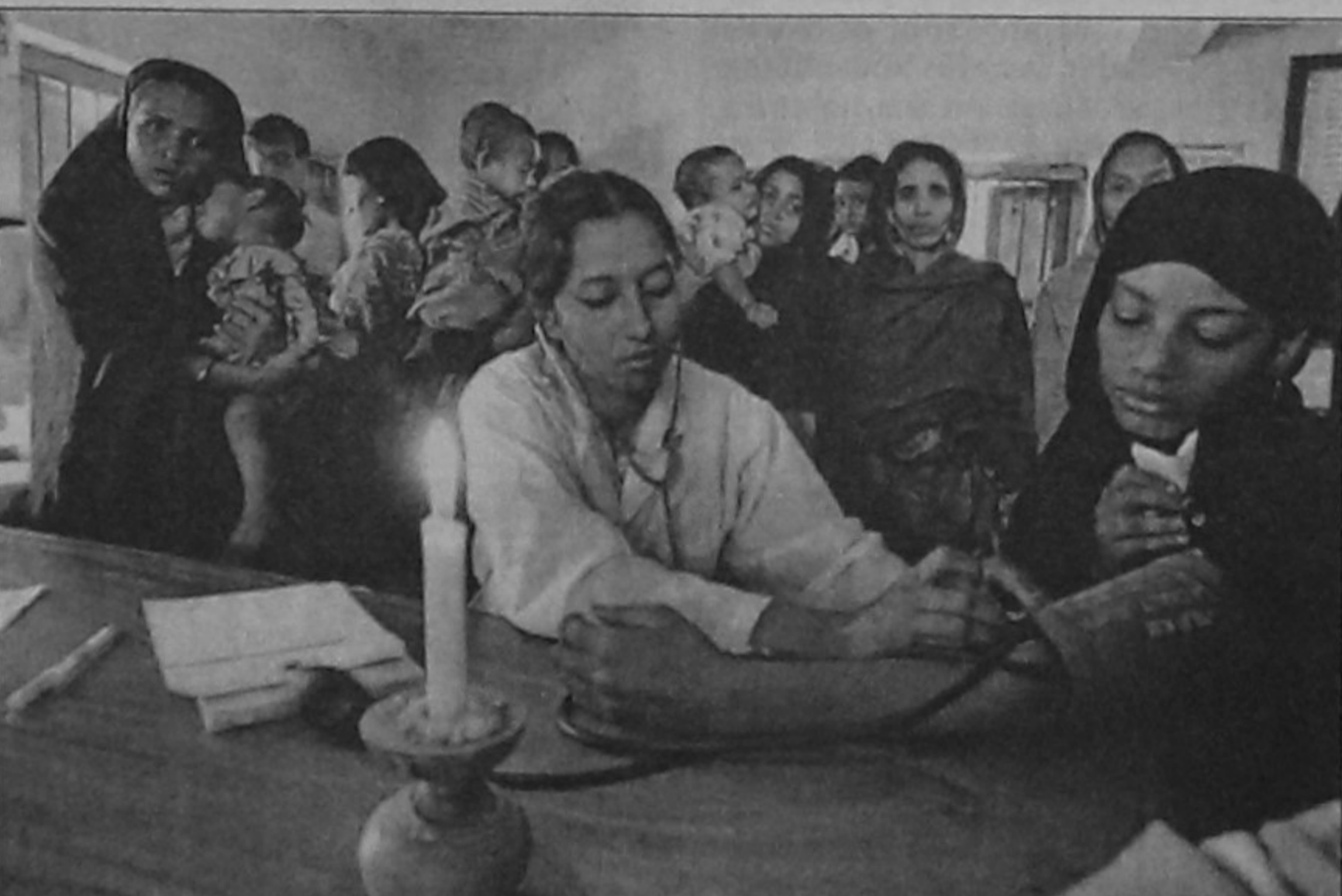
I start my class apologising to the poor souls from my beloved country. I tell my students how gratefully these poor people gave their bodies for our medical education. I also confess my failing in not showing any gratitude to those patients when I was a learner, and by

escaping my duty to help alleviate their sufferings with the skills I learned with their help.

I tell my students how these poor people helped us learn to diagnose and manage diseases, perform surgeries, put IV lines and do all other medical procedures. I also confess that it never came to our minds that we should say at least a "thank you" to those suffering people, instead we misbehaved with them for silly reasons.

The actions of the internee doctors of Dhaka Medical College hospital saddened and angered me. I did my internship 15 years ago, and even then the general feeling of impunity, unaccountability, ungratefulness, and sense of a communal empowerment was very strong among my fellow interns. We thought ourselves gods within the confines of the hospitals.

We were extremely antagonistic to the



One's life is in the other's hands.

idea of accountability to the patients. We could not imagine that we should also be subject to scrutiny. We also did not have any clue that, as service providers, we should be subject to the basic norms of customer service. When a senior police official visiting his sick mother dared to challenge the intern doctor, some outraged interns beat him up and shut down

the hospital.

Even during our time, it was fashionable to call a wildcat strike, lock down the hospital and rally against the director. The interns who did not go on strike were ridiculed by interns of other medical colleges as "wimps."

I remember how we organised boycotts of pharmaceutical companies to

press our demand for a dish antenna for the doctors' hostel, or sponsorship of all expenses paid 4-days Cox's Bazar trip for 150 interns.

We did all these with pride, without an iota of remorse, even though we were not necessarily bad human beings. Then why did we do all these? We thought of all that we were getting -- free education, free accommodation, subsidised food and unlimited supply of patients -- as our birthright.

We were never told of the sacrifice that made all this luxury possible for us. We were never taught, not in school, not in college and even not in medical college, that we ought to respect the physical autonomy and privacy rights of every human being. In medical school curriculum there was no ethics education.

Even now, a student graduates from medical school without learning about the patient's bill of rights. Neither do they see any respect for that during their years as trainee physicians.

I understand the outpouring of anger at the DMCH intern incident. I also understand that if trainee physicians can behave this way, we cannot expect much better from their seniors.

The last remnant of trust that existed between physicians as professionals and

the rest of the population has disappeared. The physician community as a whole must take the responsibility for the loss of this trust, and must work to restore it. Until that trust is restored, doctors must be prepared to face angry outbursts of the public after every death under their watch.

It is true that in most cases, especially in the emergency room, a death may well be wrongly attributed to doctor's fault. There are also many cases where internee doctors go out of their way to help a poor patient.

But the doctor community as a whole must do some soul searching. They must ask why every death is attributed to the doctor? Why, after each death, has the duty doctor to hide from the patient's angry family?

Physician-patient trust is one of the most sacred bonds in human society, but it has perished in Bangladesh. It's time to start rebuilding the trust. Let's start this long and difficult journey by instilling a sense of accountability and gratitude among our trainee physicians. Let's redesign our medical curriculum to include education on ethics and patient's bill of rights.

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