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Tiding over the downturn

A clear-cut action plan must emerge from the policy announcement

WE draw a sense of relief from the fact that the government has finally made a coherent and substantive policy statement on its plans to shore up the economy already facing the tribulations of global financial meltdown, with 2010 feared to be critical.

It's stating the obvious that like the developed countries liquidity-strapped Bangladesh cannot afford to give direct cash incentives to various sectors, it has to content with providing subsidies. The burden of financial bailouts resorted to in advanced countries fall on the ordinary taxpayers, a prospect far from desirable in our context. Therefore, the subsidisation option seems to be the natural course to take which finance minister AMA Muhith has done thereby signaling the government's clear stance on the matter.

The issue is basically reducing the spread of interest rates, between the deposit and the lending rates, so as to make money available to trade and industry at cheaper rates thereby helping to boost overall investment. The banks are required now to positively respond to government's attempts at bridging the gap between the deposit and lending rates which is the widest in the region, and little wonder with their inhibiting effect on the economy.

The decision to create an export stabilisation fund is potentially a good one having regard to the support that the affected export sectors stand in need of. There is no gainsaying that we have to go for market and product diversifications.

The new budget featuring the agenda of employing public-private partnership in generating funds for infrastructure-development and employment creation is a novelty that will be as good as its implementation. This entails a certain amount of institutional preparedness. It is heartening to know though, the government is seriously considering assisting the returnee workers from the wage earners' fund.

Although the finance minister candidly favours seeking more aid from donors, the emphasis seems to be on pooling of internal resources by whatever means possible. To the best of our knowledge, the multilateral financial institutions have uttered promising words to come in aid of a recession-hit Bangladesh economy. However, the less we contract external indebtedness, the better for us.

One final point, in the context of declining prices, relates to the task of striking a balance between helping the farmers to get fair prices for their produce and allowing the consumers to buy commodities at tolerable prices. This exercise would be pivotal to boosting agricultural production.

Diplomatic offensive in defence of migrant workers

Adequate compensation for workers must be ensured

MINISTER of State for Foreign Affairs Hasan Mahmud has been making the right noises about the future of Bangladeshi and other migrant workers. He has just told a conference organised by the International Organisation for Migration (IOM) in Geneva that countries which decide to do away with the services of migrant workers should pay them adequate compensation before sending them home. The minister has also made the very valid point that till a disposal of employment-related issues in foreign countries, workers who are ordered to leave those countries must be given a reasonable period of time for them to seek and collect their unpaid wages.

It is encouraging that Bangladesh has launched a diplomatic initiative in defence of the rights of its workers abroad. Foreign Minister Dipu Moni has been in Malaysia while Commerce Minister Faruk Khan was holding parleys with the UAE authorities in Abu Dhabi. Overseas Employment Minister Khondokar Mosharraf Hossain has travelled from Geneva to Kuala Lumpur. These forays certainly hold up stark images of the crisis that Bangladesh has lately been facing where its migrant labour force is concerned. Apart from Malaysia, our workers have come back home from such countries as Singapore and the United Arab Emirates as a result of the current global recession. While the reality of the recession cannot be ignored, what surely can be avoided is the propensity of dismissing foreign workers and sending them home peremptorily. It is a simple matter of human rights involved here, considering that when nations go for a sacking of workers, they first go after the foreigners without making any guarantees that these workers will go back home with due compensation. Of course, the Kuala Lumpur authorities have assured Dr. Dipu Moni of all possible cooperation regarding hiring and keeping Bangladeshi workers which is good tiding.

We had argued earlier that an international regulatory mechanism designed to protect the rights of migrant workers should come into play. We reiterate our position because we feel that the time is here and now for such a step to be taken.

Democracy the best revenge

Indeed, the prime ministerial security is a state responsibility, but the best security lies with a society she can, with her overwhelming mandate, build, by stamping out all the roots of insecurities once and for all.

M ABDUL HAFIZ

SHEIKH Hasina, the incumbent prime minister, while in opposition, was rubbed the wrong way by successive governments and driven from pillar to post by them. In a departure from democratic tradition she was contemptuously treated by Khaleda Zia, her archrival, during the latter's rule, when, as leader of the opposition, Hasina was denied any role in statecraft.

Her party men and supporters were indiscriminately persecuted by BNP-Jamaat goons. She was routinely scorned by the politicised administration and judiciary. Several attempts were made on her life, the most lethal being the August 21, 2004 grenade attack. Worse still, justice was subverted every time. Even during the immediate past interim government she, was the first among the top leaders to be carted away for detention and unceremoniously dragged about in the name of court attendance.

Anyone in her place would be tempted to take vengeance against the perpetrators. Her well-wishers kept their fingers crossed, hoping that the daughter of Bangabandhu would refrain from those sordid practices. But the naysayers proved right and we are witnessing its ugly manifestation.

Democracy is the best revenge, so the saying goes. Let democracy be the guiding principle for whatever Sheikh Hasina wants to do either to face the bluster of political adversary or parry off evolving hostile situations.

On either fronts she is unfortunately pushed on to the defensive for she didn't let democracy flourish in its own majesty and went by its trite definition of majoritarian rule in the same way the alliance government did before.

No wonder she has been encountering hurdles ever since she took the reins. Nothing seems to be in her grips as yet, whether dousing the flame of public discontent over myriad civic problems, or allaying the angst of a sullen armed forces over Pilkhana carnage or creating dynamism in an administration subjected to creeping politicisation.

With their confidence shaken, the bureaucracy is engaged in a balancing game with regard to their new masters for sheer survival, and its members under cloud are obviously marking their time while the blessed ones are having their field day.

Yes, Sheikh Hasina has reason to be haunted by an invisible bullet or grenade targeted at her and to beef up her security. Indeed, the prime ministerial security is a state responsibility, but the best security lies with a society she can, with her overwhelming mandate, build, by stamping out all the roots of insecurities once and for all.

In the meantime, the revelations emanating from the media outlets are dismal and depressing. The restive apparatchiks in the civil bureaucracy and military establishments do not bode well for stabilising the uneasy situation obtaining in the country and the national unity requiled to face it.

Every so often, when the country is rocked by internal crises, external players swing into action, huddling with the protagonists and seemingly brokering a solution. This time around, no such solution is in sight.

Yet to gloat over deliberate wrong-doing and the use of deceit as a favoured political tactic does not produce results every time. Neither the portrayal of what the government does as a paragon of excellence, a citadel of probity, and font of moral and intellectual parity holds good permanently.

As regards politicising the military, the syndrome of which is quite visible, the AL dispensation may be wasting its breath. It's like catching a tiger by the tail -- brave but foolhardy. Soldiers are a fraternity per se and their professional camaraderie transcends the limits of time and space -- a phenomenon that was clearly manifested in the emotional outburst in the wake of Pilkhana tragedy.

Their civilian counterparts might be happy with crumbs thrown before them, but the soldier true to his salt would not. He would rather stand by the vow he made before being baptised for soldiering. More so, when our military happens to be a relatively more enlightened lot, dedicated to the professional cause they have vowed to uphold even at the peril of their lives. The armed forces are the nation's last stand, which ought not be fiddled with. Democratic principles alone, and not even pragmatic guile can guide us out of the mire.

Brig (retd) Hafiz is former DG of BIISS.

Bailout, deficits, and inflation

Increased export prices and falling import prices boost aggregate demand and hence inflation. This is unlikely to happen if the economy is in a recession. However, higher price of imported industrial and agricultural inputs would likely cause cost push inflation.

ABDULLAH A. DEWAN

WHEN speaking at the "Macroeconomic Management in the Global Challenges" conference, Finance Minister Abdul Muhit expressed concerns about collecting more tax revenues to offset some of the adverse effects of global recession that is slowly tiptoeing into the Bangladesh economymostly through loss of exports and expatriate remittances. However, expectation of higher tax revenues during a recession to help the economy is counter-intuitive.

Muhit's decision against cash incentives in exporters bailout package and financial assistance to returning migrant workers as stipulated in my March 19 piece "Bailing out businesses" may be a stark coincidence but they're very sensible. As in my article, he also voiced the same alarm about future inflation when he affirmed that the government would act prudently to subdue inflationary pressures.

Other experts and generalists proposed other measures which boil down to providing either subsidy for resuscitating businesses or stimulus spending for infrastructure buildingthe former saves jobs while the later creates jobs. Whether it's low cost fertilisers and seeds for farmers, food rationing for the poor and "not so poor," bailout funds for export sector businesses, and now for digital Bangladeshall these have one generic namesubsidy.

The oddity about subsidy is that the recipients become dependent on it as their entitlement. Businesses tend to corrupt elected officials to prolong the tenure of subsidy through manipulating their accounting books of profits and losses. Additionally, fund recipients, as in the US, open up opportunities for self-aggrandizement and diversion of funds to non-productive activities. The exchequer ends up with burgeoning budget deficits with the consequences of higher money growth and inflation.

Government budget deficits result from a shortfall of tax revenues over spending. To finance this revenue shortfall, the treasury sells bonds in the private market. These deficits induce credit demandif not offset by reducing spending elsewhere or an increase in credit supplythat naturally exerts upward pressure on interest rates. In order to keep the interest rate on "target" consistent with monetary policy goals, the central bank may then buy bonds from private seller -- a process called debt monetisingresulting in increased bank reserves and hence larger money stock and subsequently higher rate of inflation.

Deficits can also cause inflation through lessening public's money demand. This happens if rising interest rates drive down the public's money holdings, causing money supply exceeding money demand, ceteris presibus. However, this effect is minor, unless interest rates increase massively.

A second channel works through wealth effects on money demand. Since the two are positively related, any sign of a declining wealth due to increased deficit spending will induce a decrease in money demand causing an imbalance in the money marketan excess money stock, a higher aggregate demand, thus higher inflation.

Deficits themselves can also induce a wealth decline if the funds raised in the financial market are used inefficiently. For example, a significant wealth effect would result if deficit spending diverts a significant amount of productive resources away from private investmentthe crowding out effect.

Another important channel by which deficits can cause inflation is through currency devaluation/depreciation. It results from persistent debt monetisation.

Depreciation and devaluation are sometimes incorrectly used interchangeably. Devaluation is an official intervention in which the value of a domestic currency relative to other currencies, under a fixed exchange rate regime, is decreased.

In contrast, depreciation is market drivenan unofficial decrease in the exchange rate in a floating exchange rate system, induced by excessive money growth.

Whilst depreciation or devaluation make exports cheaper to foreigners, they increase the domestic price of imports and tend to put upward pressure on the general price level.

Increased export prices and falling import prices boost aggregate demand and hence inflation. This is unlikely to happen if the economy is in a recession. However, higher price of imported industrial and agricultural inputs would likely cause cost push inflation.

Then there is the likely spectre of a global recovery being accompanied by global inflation as all the industrialised countries are also on bailout and stimulus spending spree now. Hence international inflation would very likely impinge upward pressure on the Bangladesh economy through higher priced imported inputs.

Over the July-December 2008 period, domestic banks, domestic non-banks, and foreign sources financed 47.12, 19.24, and 33.66 per cent of the total deficits compared to 61.71, 10.14, and 28.15 per cent respectively over the same period in 2007.

Average money growth and inflation rate over the same period was 19.6 and 6.5 per cent respectively, which are already too high. Interested quarters should keep an eye on the growth of deficits and money growth to track the courses of inflation.

Obviously 14.59 per cent of the deficits over the July-December 2008 period were financed by non-bank public (private savings and possibly money-printing). Such private savings are unlikely to be fetched under a full-blown recession and supply of savings will also become unattractive if the interest rates on savings rate fall. Hence debt monetisation is the likely alternative to finance all forms of subsidy.

The *fons et origo* of the recessionary thrust in Bangladesh is totally external. No domestic fiscal incontinence can ride the country out of this fiasco in the short-run. However, I see a glimmer of hope for a significant recession rescue package from foreign sources if Barack Obama succeeds in persuading the leaders of the G-20 countries for aggressive stimulus spending when they all meet in London next week.

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Capitalism and its victims

These are hallowed institutions. The power of private capital to produce jobs, wealth and freedom is one of the central dogmas that many Americans absorb with their mother's milk. To hear this dogma challenged in any context is unsettling.

M. SHAHID ALAM

IT has never been easy offering a critique of capitalism or markets to my undergraduate students. Most have never heard an unkind word about these bedrock institutions, which they know to be the foundations of American power and prosperity.

These are hallowed institutions. The power of private capital to produce jobs, wealth and freedom is one of the central dogmas that many Americans absorb with their mother's milk. To hear this dogma challenged, in any context, is unsettling. I sometimes suspect that this bitter pill is harder to swallow because it emanates from someone who, so transparently, is not a native-born American.

Nevertheless, the thesis that "free" markets have rarely worked for economies lagging far behind the economic leaders, does not quite take root. The fault could not lie with markets. For too long, the West has believed that Asians, Africans and Latin Americans failed because they were lazy, spendthrift, venal and unimaginative. My students, like most Americans, have been conditioned to look at capitalism from the standpoint of the winners in global capitalism. They cannot conceive how a system that has worked so well for them could produce misery for others in Asia, Africa and Latin America.

I have been away from my teaching duties as the United States has led the world into a deepening recession. Within a few months, the titans of Wall Street have been laid low, rescued from extinction by tax-financed bailouts. Teetering on the edge of bankruptcy, the auto giants have been placed on life-support also by taxpayers, their future still uncertain. In this maelstrom, there steps forward Bernard L. Madoff, the Einstein of Ponzi schemes, who operated his colossal con for twenty years without notice from regulators. As Americans on Main Street were being devastated, executives of bailed out banks continued to receive millions in bonuses.

Ordinarily, American democracy directs its venom against writers and activists on the left foolish enough to want to defend the underprivileged. For a change, Americans are threatening captains of finance, venerable bankers, with dire consequences even death threats. Wall Street is being being toppled by greed, recklessness and fraud; by a free-market ideology that has no regard for human life; by capitalist elites and their partners in the White House and Congress, who had turned the financial sector into a giant Ponzi scheme.

When I return to teach in fall of this year, I expect to meet students chastened by their experience. Nothing undermines capitalist ideologies faster and more effectively than capitalist crises. No critique of capitalism can be more penetrating than the depredations of unemployment, immiseration, homelessness that it inflicts on its victims. So recently victimised at the very centre of global capitalism perhaps, Americans might learn to empathise with victims elsewhere in Africa, Asia and Latin America who have been ravaged by this system for centuries.

Capitalist ideologues will be working overtime to deflect American anger away from the system to a few villains, to a few rotten apples. Congressional hearings will identify scapegoats; they will hang a few 'witches.' A few capitalist barons will be sacrificed. As public anger subsides, attempts will be made to shift the blame to feckless homebuyers and compulsive consumers. At all costs, the system must be saved. The capitalist show must go on, with as little change as possible.

Quite apart from this crisis, however, new technologies, in combination with the irreversible shift of sovereignty to some segments of the capitalist periphery, have been changing the dynamics of unequal development. The high-wage workers the so-called middle classes in the developed countries have been losing the protection they have long enjoyed against competition from low-wage workers in China and India.

More and more global capitalism will enrich some workers in the 'periphery' at the cost of workers in the 'centres' of capitalism. In the years ahead, the great alliance that was forged between capitalists and workers in the centres of capitalism will come under greater strain. More and more, the interests of these two classes will diverge.

Powerful corporations will still insist on openness, while growing ranks of workers will press for protectionism. This revival of class conflict in the old capitalist centres will strain existing political arrangements.

As growing segments of high-wage workers in the rich countries become the new victims of capitalism, will they slowly learn to see capitalism from the standpoint of its victims? In this new emerging reality, will orthodox economics migrate from its old centres in London, Cambridge and Chicago to new centres in Bangalore and Beijing?

A curious world this will be when seen from the old centres. In truth, this will only be a long-delayed correction to two centuries of unequal development, dominated by Western centres. Sadly, the correction will not go far enough: it will leave much of the world mired in poverty and disease.

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