

Hapless consumers at the receiving end

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SAADAT HUSAIN

MARKET structure is a very important parameter in shaping the market power, which in turn plays a crucial role in price determination. Proponents of free market economy usually visualise a competitive market with infinite space for free entry and free exit, fair exchange and unhindered enforcement of contract. There is no room for super-profit in this scenario.

Rational economic agents, buyers and sellers, through fair bargaining reach equilibrium, which is optimal for both the parties. Because of unlimited buyers and sellers with no restriction on entry and exit, there is no collusion or price fixing in this market. The situation cannot be improved through any exogenous intervention.

Other forms of market are also observed throughout the world, Bangladesh not being an exception. Monopoly, duopoly, oligopoly, monopsony are widely cited structures outside the competitive model. Wrestling market power is the target of major players in all these models. The players use game plans to maximise their gains.

In so doing they marshal their

resources of all categories to accomplish the cherished objective(s). Their success depends much on the strength and strategy adopted by their counter parties or clientele groups. If the counter parties are weak or they do not have a formidable strategy to fight back, the above-mentioned market players will have a clean sweep at the cost of their counter groups.

Those affected most adversely by the game plan of the monopolists, duopolists and oligopolists are the hapless consumers. They are passive, voiceless and disorganised.

On the other hand, the sellers in the noncompetitive markets are highly organised, vocal, rich, collusive and effective activists. They have easy access to influential quarters and they can present their case, however bad that may be, in an attractive package.

They are always on the prowl to maximise their gains. Their most favourite mechanism is to increase the price of the commodity on some pretext or other. They stymie the supply, create artificial scarcity and enter into collusive machination to fix the price at their preferred level with blatant nonchalance to con-

sumers' wellbeing. In fact they like to squeeze the consumers until the pips squeak.

The targeted commodities are essential ones with low elasticity of price. They usually orchestrate the price movement with such ingenuity that consumers cannot switch over to substitute goods because, in the meantime, their prices have also increased. Consumers have to borrow or draw on their savings to buy the essential commodity whose price has been stilted by the market manipulators.

Consumers in Bangladesh have suffered very badly at the hands of the market leviathans. They had to grant whatever the market power asked for. They also had to swallow the erroneous arguments extended by the market behemoths.

From 2004 to late 2008 major players of the noncompetitive markets increased the prices of almost all commodities on the pretext that the international prices had increased substantially. It was partially true; staggering price increases in the local markets, however, could not be fully explained by international prices.

Starting mid 2008, prices in the international markets started plummeting. Sellers in the local markets did not follow suit with a reasonable time lag; they delayed inordinately in passing on the benefit to the consumers. Even when they did, it was too little and too late.

Consumers had no power, no organisation to pressurise the sellers to bring



The buyer is always the loser.

down the prices immediately and commensurate with the international price. They were helpless suckers whom the sellers could fleece blithely without encountering any resistance.

While the prices of the raw material and primary commodities came down the producers of the processed goods refused to lower the prices of their products, thanks to market power wielded by them through unethical collusion between members of the fellow trade bodies. The high price of bakery products

is a glaring example in this case.

Prices of raw materials have come down drastically but those of bakery products remained ratcheted as before. The price of puffed rice also stood unaltered, allowing the processing establishments to mop up super-profit at the cost of the consumers who failed to resist such unethical move either by raising their voices or declining to buy the product at least for some time.

The asymmetric bargaining position of business houses and consumers is fur-

ther exacerbated by the operation of laws and rules relating to trading organisations. While there are elaborate arrangements to promote and protect the interest of business houses, there is hardly any program to protect the rights and promote the interest of the consumers.

The recently enacted consumers rights protection act is yet to be effective, its application in the market place hinges on the creation of the consumers rights protection directorate. The law does not provide specific means to mobilise consumers or strengthen the existing Consumers Association of Bangladesh (CAB) so that they can stand solidly as a countervailing force against the manipulation of the market players.

Apart from punitive actions provided in the act, consumers have to say "no" to arbitrary price increase by the traders and, if necessary, boycott the products for a while. This would call for strong motivation and temporary sacrifice by consumers for long-term gains. Only a strong consumers movement can accomplish this task.

Consumers have suffered long, helplessly as mute observers. They failed to evoke a scintilla of sympathy from the sellers. It's time that they should react and resort to shtick to protect their interest. We must remember that market manipulators do not listen to any precatory advice.

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Two views on the cause of the global crisis

The real cause of the crisis lies in huge inequalities in income distribution which generated much larger investable funds than could be profitably employed. The political problem of insufficient economic growth of the middle class was then "solved" by opening the floodgates of the cheap credit.

BRANKO MILANOVIC

THE current financial crisis is generally blamed on feckless bankers, financial deregulation, and crony capitalism. While that may be true, this purely financial explanation of the crisis overlooks its fundamental reasons. They lie in the real sector, in the distribution of income across individuals and social classes. Deregulation just exacerbated the crisis; it did not create it.

To go to the origins of the crisis, one needs to go to rising income inequality within practically all countries in the world, with US in particular, over the last thirty years. In US, the top 1% of the population doubled its share in national income from around 8% in the mid-1970s to almost 16% in the early 2000s. That eerily replicated the situation that existed just prior to the crash of 1929, when the top 1% share reached its previous high watermark American income inequality over the last hundred years going down from its 1929 peak all the way to the late 1970s, and then rising again for thirty years.

What did the increase mean? Such

enormous wealth could not be used for consumption only. There is a limit to the number of Armani suits one can wear. It was not reasonable either to "invest" solely in conspicuous consumption when wealth could be further increased by judicious investment. So, a huge pool of available financial capital went in search of profitable opportunities into which to invest.

But the richest people and the somewhat less rich could not invest the money themselves. They needed intermediaries, the financial sector. Overwhelmed with such an amount of funds, and short of good opportunities to invest the capital as well as enticed by large fees attending each transaction, the financial sector became more reckless, basically throwing money at anyone who would take it.

While one cannot prove that investible resources eventually exceeded the number of safe and profitable investment opportunities, this is strongly suggested by the increasing riskiness of investments that the financiers had to undertake.

But this is only one part of the equa-

tion. The second part of the equation explains who borrowed that money. There again we go back to the rising inequality. The increased wealth at the top was combined with an absence of real economic growth in the middle.

Real median wage in US has been stagnant for 25 years, despite an almost doubling of GDP per capita. About one-half of all real income gains between 1976 and 2006 accrued to the richest 5% of households. The new "gilded age" was understandably not very popular among the middle classes that saw their purchasing power not budge for years.

Middle class income stagnation became a recurrent theme in the American political life, and a political problem for both Democrats and Republicans. Politicians obviously had an interest to make their constituents happy. Yet they could not just raise their wages where the alternate was to increase their purchasing power through accessible credit.

People began to live by accumulating ever rising debts on their credit cards. President George W. Bush famously promised that every American family will be able to own a home. Thus was born the great American consumption binge which saw the household debt increase from 48% of GDP in the early 1980s to 100% before the crisis.

The interests of several large groups of people became closely aligned. High net-worth individuals and the financial sector were keen to find new lending opportunities. Politicians were eager to "solve" the irritable problem of middle class income stagnation. The middle class and those

poorer than them were happy to see their tight budget constraint removed as if by magic wand, consume all the fine things purchased by the rich. Suddenly, the middle class too felt like the winners.

This is what more than two centuries ago, the great French philosopher Montesquieu mocked when he described the mechanism used by the creators of paper money in France: "People of Baetica," wrote Montesquieu, "do you want to be rich? Imagine that I am very much so, and that you are very rich also; every morning tell yourself that your fortune has doubled during the night; and if you have creditors, go pay them with what you have imagined, and tell them to imagine it in their turn."

The credit-fueled system was further helped by the ability of the US to run large current account deficits, to have percentage points of its consumption financed by foreigners. The consumption binge maintained the American dream of a rising tide that lifts all the boats. But it was not sustainable. Once the middle class began defaulting on its debts, it collapsed.

We should not focus on the superficial aspects of the crisis, on the arcane of how "derivatives" work. If "derivatives" they were, they were the "derivatives" of the model of growth pursued over the last quarter a century.

The real cause of the crisis lies in huge inequalities in income distribution which generated much larger investable funds than could be profitably employed. The political problem of insufficient economic growth of the middle class was then "solved" by open-

ing the floodgates of the cheap credit.

And the opening of the credit floodgates was needed because in a democratic system an excessively unequal model of development cannot coexist with political stability.

Could it have worked out differently? With the same overall national income, income of the middle class would have been greater. People with middling incomes have many more priority needs to satisfy before getting preoccupied with investment opportunities.

Thus, the structure of consumption would have been different.

More equitable development would

have removed the need for the politicians to look around in order to find palliatives with which to assuage the anger of the middle-class constituents.

In other words, there would have been more equitable and stable development which would have spared US, and increasingly the world, an unnecessary crisis.

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Some have more than they need, others have nothing.

After the elections

We have wasted too much time and too many resources in attaining too little. Let us discuss all these things openly and without fear now that the elections are over.

KULDIP NAYAR

SIX weeks is too long a period for conducting elections. The government has been inactive since the poll notification issued nearly three months ago. Fortunately, there has been no challenge from within. But practically all neighbouring countries have been

facing such situations that demanded New Delhi's immediate attention. The new parliament must attend to this problem.

Inside the country certain tendencies that have arisen cause concern over the future of democracy. Elections are not just a question of queuing up before the polling booths, but also representing

something more meaningful for the people. Economic well-being is no doubt the main element required, but more important is the value system which the nation has lost along the way. If the country had only retained the rule of law, it would have met the minimum demand of democracy. Worse, there is no accountability in any field.

The question is: who will bring about the required change? Leaders of political parties are interested only in power for power's sake. They have made their parties their personal fiefdoms, and there is no internal democracy. A party moves from one alliance to another, not on ideological or policy considerations but on the basis of gain. Criminals or moneybags do not have any vision that inculcates principles and a sense of humility.

What has lately pulled down the nation is the polarisation of the society. Democracy has already been diluted to that extent. India appears to be building a structure, which is far from the traditional principles; by the people, of the people and for the people. The country has seen in the last few elections more appeals in the name of caste or community by Yadavs, Patels, Marathas, Rajputs and others. These powerful groups have developed into mafias.

The introduction of Narendra Modi as a prime ministerial candidate in the midst of the elections was meant to project Hindutva and to emphasise that here was the man who could go to any length to make the society more Hindu and more parochial. It's a tragedy that the BJP,

which once led the country, fails to appreciate the temperament of an India where both Hindus and Muslims have lived together for centuries in a spirit of accommodation.

I recall that, when I was India's high commissioner at London, Prime Minister Margaret Thatcher visited the Soviet Union when it was tottering. Concerned over its future, she told me at a party how Soviet President Gorbachev was helplessly looking for a way to keep his nation together. She said that her advice to him was to send a team to India to see how a society divided by caste, communities and languages had managed for hundreds of years to survive as one country.

She asked me how I would explain this phenomenon. I told her that we in India did not think that things were either black or white, but believed in a grey area. We went on expanding the grey area, another way of describing the pluralism, which had kept our society together. The glue is the sense of tolerance. This glue, I find, is drying up year after year.

The recent Lok Sabha election has shown increasing intolerance and speeches of hate, including personal attacks, which do not in any way contribute to the democratic spirit. It is time that we have some legislation that blocks communal and caste-based parties from contesting elections. The names of parties should not delude us because under an innocuous banner a party can spill venom. Equally important is how to bring about a change in the society where disparities are increasing between individu-

als and regions.

Since consumerism has become an integral part of our life, it does not occur to us that two-thirds of India's population continues to live in an income around Rs. 1,000 a month even after 62 years of independence. The International Food Policy Research Institute ranks India 66th out of 88 countries in its 2008 Global Hunger Index; hunger is at a "serious" level in four of its 17 biggest states, "alarming" in 12 and "extremely alarming" in 1. This poor performance is unrelated to state-level economic growth or who holds power; this is a systemic failure.

Political leaders are comfortable because they are thick with industrialists and businessmen who provide them the funds they require. In the absence of electoral reforms it is not possible to stop the role that money plays. But will the political parties agree to a law, which makes elections possible within an affordable limit?

The role of the media, particularly the electronic one, has been deplorable. The bias was obvious and there are reports of corrupt practices. An inquiry committee should be appointed to look into the charges, which some political leaders are willing to substantiate.

Corruption has saturated both the bureaucratic and political machinery to such an extent that the rule of one party or the cabal means benefits for all those who constitute or support it. Sometimes people have argued that it is better to allow a party in power to continue than to elect a new one because the one in

power has filled its coffers and would need less.

I think there is a point in the comment of *The Times*, London: "Just as India has taken cricket and changed it forever it has adopted democracy and transformed it into its own unique political game." Yet, this is democracy of a different kind. It does not ensure that people can elect the candidate they want, nor does it get away from dynastic, caste and communal politics. In such a system the youth suffer the most -- the new entrants are said to be 23 million.

At some stage the people will become desperate because they have been led down a wrong path. Some straws are already in the wind, and they are in the shape of the gun-backed agenda of the Naxalites, or those in the northeast. The government has been raising battalions of police and legislating more and more oppressive laws. But even top securitymen who use them have said publicly that the situations require a political approach rather than suppression.

Perhaps all "isms" have no answer to India's ills. It has mixed them to try to solve the economic problems. One, I am not sure how far the rulers have been sincere in using them to oust poverty, and two, whether the methods employed were relevant. However, we have wasted too much time and too many resources in attaining too little. Let us discuss all these things openly and without fear now that the elections are over.

Kuldip Nayar is an eminent Indian columnist.



Time for stocktaking.