

Britain elects a hung parliament



Politically, the "centre-right" Conservatives and "centre to centre-left" Liberal Democrats may be strange bedfellows. But the prospect of gaining power may glue them together -- at least there is one commonality -- both are 43 years old.

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BRITAIN elected its 55th Parliament on May 6. The 54th parliament was dissolved on April 12 and election campaign started with vigour. More than 4,000 candidates from different parties fought the election. Over 60 per cent of 44 million voters cast their ballots.

Final results clearly show that in the triangular contest -- Labour, Conservatives and Liberal Democrats -- none secured an outright majority (326) in the 650-seat House of Commons. The Labour Party, led by Gordon Brown, got 258 seats (39 per cent votes). The Conservatives led by David Cameron (43), surged ahead after the TV debates, and got past Labour and secured 306 seats (47 per cent votes). Liberal Democrats leader Nick Clegg (43), until recently relatively little known, secured third position with 57 seats (8 per cent votes). Other smaller and regional parties secured 28 seats (4 per cent votes).

It is thus a hung parliament. The election has been described as the toughest in recent decades. Labour's sway over British politics, which began with Tony Blair's emphatic win in 1997, has come to an end after 13 years.

The last time Britain had a hung parliament was in February 1974. Prime Minister Edward Heath's Conservatives got 297 seats against Labour's 301. Since neither had majority, Harold Wilson formed a minority government, which lasted seven months before fresh elections were called.

Incumbent Prime Minister Gordon Brown (59) was chancellor of the exchequer under Tony Blair. Brown, who was desperate to lead the party, had troubled relations with Blair. He finally took over as Labour Party leader from Tony Blair in June 2007, ending his ten-year stint as chancellor and became prime minister.

The reasons for Labour's defeat are not far to seek. Though Britain had little to do with the global credit crunch that ravaged the economies around the world, Britain suffered the longest recession. Brown had tried to steer Britain's economy from the scourge of recession, which currently shows a small positive growth at 0.2 per cent. With 8 per cent unemployment, many small businesses closed and the economic devastation left by the recession had made the voters wary of the Labour Party.

In May 2009, the *Daily Telegraph* exposed the "expenses scandal" of British MPs. MPs, on both sides of the aisle, were accused of drawing funds from the parliament on fake and fraudulent bills. The embarrassing stories came out when Britain was reeling under severe recession.

The other insignificant yet politically devastating gaffe, which was committed by Brown, is now known as "bigot-gate." He was overheard describing Gillian Duffy (66), who expressed her concerns about immigration from Eastern Europe, as a "bigoted woman." Though Brown later made amends and publicly regretted the incident -- it left a scar on his campaign.

Electoral politics revolves around economic condition of people rather than anything else. People have in general have felt that Gordon

Brown was responsible for the long recession and failed to improve their economic condition.

Clearly, the incumbency factor worked against Gordon Brown. The three live TV debates, first of its kind in Britain, have actually benefited David Cameron. But, alas, he too could not come out with an outright majority. The media also played a vital role in projecting the parties and personalities in the electoral fray.

The fractured mandate has thus set the stage for a coalition government. Hectic horse trading, wheeling and dealing has already begun and may continue until May 18, when the House is supposed to meet for the first time.

The question is who will be the next prime minister. Britain does not have any history of coalition governments, although other European nations (Germany, Belgium, Italy) have done quite well with such political practices. Brown has admitted that his generation of politicians is not familiar with such practices. He will, however, continue as prime minister until either he succeeds in forming a government or someone else emerges as leader of the House. Sadly it seems that Gordon Brown's political career is over.

All eyes are now on Nick Clegg -- apparently the kingmaker. He clearly stated in his post-election statement that the chance to form a government should be given to the largest party in the House -- meaning the Conservatives. David Cameron also said: "Labour has lost the mandate to govern our country." He made a "big, open and comprehensive" offer to Liberal Democrats in a bid to form a coalition government.

Who will make what kinds of concession remains to be seen. Politically, the "centre-right" Conservatives and "centre to centre-left" Liberal Democrats may be strange bedfellows. But the prospect of gaining power may glue them together -- at least there is one common-

ality -- both are 43 years old.

The role of Queen Elizabeth II, the constitutional head of state, in this sort of situation is quite clear. She will invite the leader of the House, as and when he emerges, to form the next government. She has no role in the formation of governments.

Whoever becomes prime minister will have his plate full. Though the economy has shown signs of recovery, it remains fragile. Britain's public debt currently stands at a worrying £164 billion (Euro 189 billion), which is 11.6 per cent of its GDP, the highest since WWII. Greece currently has a deficit of 13.6 per cent of GDP (Euro 216 billion) and is in deep turmoil.

Unless this massive budget deficit is quickly and firmly reduced, the economy may face a double-dip recession. All the three major parties have been talking about reducing the deficit -- but how and when such measures will be introduced remained vague. Evidently there are two instruments to do that -- raise taxes and cut spending on public goods and welfare. Both these tools are extremely unpopular with the people.

The new prime minister has to assure the corporate world that the deficit will be brought down within a time frame and the economic recovery will continue. These policy steps are immediately needed to avoid a run on the pound, which is already under pressure. Procrastination in forming the government may spell disaster for the economy.

Britain's parliamentary form of governance has been replicated around the world as a model of sustainable democratic institution. Many countries have succeeded in forming working coalition governments in the parliamentary system. It will be shocking if major parties fail to come out with a coalition government after this election and goes for election again, as in 1974.

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Show me the money

Bangladesh has low labour costs because it has never provided productive jobs for millions of its citizens. The time has come for a turn-around, provided the old mind-set is changed to treat FDI as a friend not as a foe, the administrative set-up is overhauled and bureaucratic barricades are overcome.

ABDUL BAYES

GUSTAV F. Papanek, the President of the Boston Institute for Developing Economies (BDIE) and a consultant to the Board of Investment (BOI) of Bangladesh, visited Bangladesh recently. Some of our present and past policy-makers and eminent economists are reported to be his former students, directly or indirectly.

He came to present a keynote speech in a seminar jointly organised by the Policy Research Institute (PRI) and the BOI. It was called "Strategy for Mobilising Foreign Direct Investment in Bangladesh: Lessons of Asian Experience." In the following paragraphs, I shall present his perceptions about Bangladesh economy.

Labour is an asset

Gustav argues that the labour force in Bangladesh is its major asset, not the biggest problem. If the government could utilise that asset properly, it could achieve 8-10 percent growth. Bangladesh, seemingly, is on the wings of a once-in-a-lifetime opportunity to uplift her socio-economic conditions.

The boon may emerge from China's rising labour costs. Of late, China seems to be growing uncompetitive in the world market in labour-intensive manufactured goods, such as car and motorcycle parts, shoes, furniture, textiles, garments, toys, plastic goods, electrical and electronic goods etc.

If we assume that Bangladesh can harness 10 percent of China's \$185 billion exports of garments and textiles (30 percent of world supply

with judicious policy mix and quick decision-making, it would amount to a doubling of all exports earnings for this country.

Bangladesh's competitiveness comes from three sources. First, wages in Bangladesh are relatively very low -- \$1.50/day compared to the next cheapest wage of \$4.50 in Indonesia. Second, its location can help bring in cheap power from neighbouring countries and fetching fees in exchange for transit facility. Third, it has an attractive incentive package to lure investors, although incentive matters very little where profitable investment opportunities are lacking.

When labour is liability

The asset that Bangladesh boasts of is balanced by the liability. Most of it is either unemployed (with marginal productivity of zero or negative) or employed in the lower end of the productivity scale. The inadequate power and gas supply and infrastructure deter domestic and foreign private investment. There are many government regulations, and non-transparent decisions influenced by corruption, collusion and nepotism. However, the basic cause is indecision in taking up and implementing projects. Decisions carry heavy risks and costs.

Not taking a decision in this country is the most optimal policy when taking a decision could invite punishment in terms of corruption cases. Thus, labour remains a liability in the face of the barrage of constraints impeding its productive utilisation through domestic and foreign investment.

From liability to asset

In Bangladesh, 2 million people are added to the labour force every year. It creates 1 million jobs, including migrants. Poor people cannot be unemployed, so they share work and income with family or with those in the same village. Their wages are low, contributing little to the national income, even though they may work hard. Despite the decline in the share of agriculture to GDP in successive years, the sector released very little labour for the manufacturing sector, thus distorting a Lewisian transformation.

Gustav thinks that Bangladesh can have a rate of economic growth of 8-10 percent and can create 3-4 million jobs a year only when it takes advantage of its assets and overcomes the handicaps. The main source of rapid growth will be labour-intensive exports taking over the Chinese market. That implies that exports will have to grow at 30-35 percent as against 10-12 percent in past 8 years.

The exports earnings of \$14.5 billion in 2009 would double by 2011 and help create 3.5 million jobs directly. That 3.5 million will result in 7 million jobs -- assuming an employment multiplier of 2 as in other countries -- in 2 years from labour-intensive exports. Once jobs are created, it would mean more taxes for the government and more jobs in infrastructure and construction. The multiplier and linkage effects so created could place Bangladesh on a high growth trajectory.

If every year 3 million workers, instead of 1 million, get productive jobs, growth would increase by 1 percent and income by \$1 billion, wages would rise and poverty would be reduced. If millions cannot find productive work it will not only be a horrible economic waste but also an explosion waiting to happen.

Community-driven development (CDD) may create village-based labour-intensive administered rural works. But there has to be a complete decentralisation of administration and empowerment of local level institutions --

that Bangladesh has yet to initiate. Besides, creating 10 percent growth would require, among other things, duty-free imports of inputs for exports.

Feeble flow of FDI

Bangladesh's savings rate went up from 23 percent to 30 percent of GDP but the share of investment has stagnated. This indicates that Bangladesh has been spending less. FDI inflow here is disappointing. Bangladesh netted \$1 billion worth of FDI in 2008 compared to 0.7 billion in 2004-2007 (mostly by mobile phone companies). This compares with \$148 billion in China, \$41 billion in India, \$10 billion each in Thailand and Vietnam, \$7 billion in Malaysia and \$5 billion in Pakistan. Vietnam has one-third of Bangladesh's population but receives 10 times more FDI.

Bangladesh needs FDI for developing its major assets like gas reserves and pipelines, and large power stations. It also needs FDI for accessing markets in items such as sports shoes, car-making, high fashion RMG, agro-processing and marketing etc. By and large, the "once-in-a-lifetime opportunity to uplift her socio-economic conditions" would require a huge amount of FDI inflows (roughly \$10 billion a year!).

Bangladesh needs to change the system. It is a very daunting task, but not changing it would be disastrous. Reforms have political costs; they harm powerful groups even though they benefit society. Governments do them because they have little choice; the alternative is worse -- millions of underemployed who consume but do not add much to income or production.

Bangladesh has low labour costs because it has never provided productive jobs for millions of its citizens. The time has come for a turn-around, provided the old mind-set is changed to treat FDI as a friend, not as a foe, the administrative set-up is overhauled and bureaucratic barricades are overcome.

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Motherland, and Mother's Day

When she came out running, something clutched in her hand, a family legend was born, a story of personal luck and one woman's quick thinking.

ADNAN MORSHED

IT was a sunny yet foreboding day in early May 1971 in Chittagong. The streets were desolate and quiet, their tranquility sporadically interrupted by speeding military convoys and the haunting acoustics of machine guns.

The bloody liberation war of Bangladesh had started less than two months earlier when West Pakistan's military regime led by President Yahya Khan sought to quash the democratic and legitimate claims of the Bengalis to the political space of Pakistan. The country was burdened from its inception in 1947 with the impossible geography of two wings separated by the enormous and antagonistic India lodged in between. Although bound presumably by the common thread of Islam, the political destiny of the two wings of Pakistan was complicated by different mother tongues and asymmetric economic growth in the West, often at the expense of the East.

I was a kid then, and have fuzzy memories of the war, but I distinctly recall what happened to my family that day. Our neighbourhood, an affluent suburb, was totally deserted. Most households had decided to take refuge in the relative safety of their village homes. Feeling confident that we would somehow elude the atrocities of the war, my family remained.

But on that fateful day, the Pakistani military descended on our three-storied house and sprayed it with indiscriminate gunfire. Two massive tanks blasted the shells that left gaping holes on the front façade. My parents, my siblings, and I huddled together and covered under the dining table, shivering at the thought of our impending death.

In that moment my family became the microcosm of a nation terrorised by brute military aggression.

A contingent of soldiers led by a menacing officer burst open the front door and ordered my father and my elder brothers to line up in the hallway for what seemed like a point-blank execution order. The accusation: collaboration with the Mukti Bahini. My two sisters and I watched in horror as my mother stood there, petrified with helplessness.

Guns were raised and the obvious was about to happen. In that split second between life and death my mother pleaded with the commanding officer for a reprieve as she ran inside the bedroom. When she came out running, something clutched in her hand, a family legend was born, a story of personal luck and one woman's quick thinking.

But it was also a larger story -- of humanity, of motherland -- a universal story demanding that Mother's Day be recognised as deeply meaningful, beyond wishy-washy formalities, to reckon with the matriarchal narrative that cuts across the human history.

The soldiers left without killing my father and brothers. We hugged and cried while my mother was still numb with shock and disbelief. It seemed like a miracle that she had been able to save us on that day, but a great many Bengali mothers were not so fortunate during the war.

In post-1947 South Asia, Islam was meant to be a complex political totem for an integrated Pakistan. But it eventually proved far too inadequate when the West Pakistanis began killing their fellow citizens of the East for the sake of elusive territorial integrity. Although the Pakistani military, in collusion with local collaborators, killed nearly three million Bengalis during the war, we are yet to present to the world community the bloody history of this genocide as one of the darkest episodes of human history. The systematic butchering of the country's intellectuals to cripple the nation when secession seemed inevitable is unprecedented. But does the world know enough about the massacres of 1971 the way it knows about the Holocaust or the "killing fields" of Phnom Penh or the Armenian tragedy?

As a result, forty years after the birth of Bangladesh, the judicial quest to bring the local collaborators to justice remains a politically divisive and challenging project. Ironically, in a world of surging political correctness, Pakistan still evades the moral imperative to formally acknowledge and apologise for its actions in 1971.

The liberation war of Bangladesh amply demonstrates why the western world must avoid seeing Islam as a uniform political cement binding a vast territory into a coherent concept. Countries with Islam as their main faith are, on the contrary, fraught with all kinds of ruptures, fragments, colours, shades, and differing worldviews and aspirations.

For my family, 1971 was both a tragedy and a gallant story of survival, thanks to my mother's heroic intervention. When she returned from her room, proclaiming our family's innocence with the Quran in her hand, the military officer was unsettled and called off his arbitrary justice. Whether it was reverence for the Quran or the sight of fierce and desperate mother love that humanised the commanding officer has always been a puzzle for me.

Every year on Mother's Day I renew the epistemological force of this puzzle.

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