

Getting the ADP debate right

Could it be that the government is adopting an approach where a large ADP is announced, with promises made to various constituencies, lobbyists, and supplicants, all the while knowing that the marginal projects will be discarded in the implementation phase?

JYOTI RAHMAN

THE 2010-11 (FY11) budget envisages an Annual Development Program (ADP) of Tk.38,500 crore. Some media commentaries have focussed on its record size, without recognising the fact that both our economy and population are larger than ever before. To note the record size of ADP in isolation is like saying I am older today than at any time in my life!

Meanwhile, others have criticised the ADP for being too big or too ambitious. Pointing to the facts that only once in the past decade has an ADP been fully implemented and the implementation rate has been particularly poor from FY02 to FY09 (Chart 1), many commentators cynically predict that whatever the announced size, the actual ADP will likely fall short of the target.

Is the ADP too big? Let's explore this question with a couple of charts.

Chart 2 presents original (that is budgeted) and actual (that is implemented) ADP since FY92 as percentage of GDP. Averages of these ratios between FY92 and FY01 are also presented.

Between FY92 and FY01, original ADP was on average 6.8% of GDP, while the actual ADP used to average 6% of GDP. In the past decade, both original and actual ADP had shrunk relative to GDP. In FY09, original ADP was 4.2% of GDP, while the actual ADP was 1 percentage point less. Under the current government, original ADP has risen relative to GDP. But at 4.9% of GDP, it is still far below what was regularly implemented in the 1990s.

Is the ADP too big? Not compared to the size of the economy.

Another way to compare the size of the

ADP is to analyse it in per capita term. This is done in Chart 3. Our measure of the population is the UN Population Database medium variant estimate, which puts the country's population at 164.4 million in 2010. In per capita terms, original ADP had risen consistently since FY92, except for FY08 and FY09, when it dipped from the trend (for both FY92-FY01 and FY92-FY07 periods). In FY10, ADP per capita merely returned to what would have been the case had the past trends been maintained. Meanwhile, in the last decade, actual ADP per capita has consistently slipped below the trend achieved in the 1990s.

The budgeted ADP for FY11, compared against the past trend, does seem big, particularly given the gaping hole between the budgeted and implemented ADP in recent years. But there is more to this picture than meets the eye. In per capita terms, the FY11 ADP as budgeted is 2,310 taka. Suppose the 1990s trend in the implemented ADP had continued throughout the past decade -- the realised ADP in FY11 would have been 1840 taka. If the government implements 1,840 taka per capita of ADP in FY11, it will have implemented only 80% of the announced ADP.

Is it an ambitious ADP, or a conservative assessment of the government's own realisation capacity? After all, between FY02 and FY09, only about 77% of announced ADP had been implemented on average a year.

Could it be that the government is adopting an approach where a large ADP is announced, with promises made to various constituencies, lobbyists, and supplicants, all the while knowing that the marginal projects will be discarded in the implementation phase? Could this be

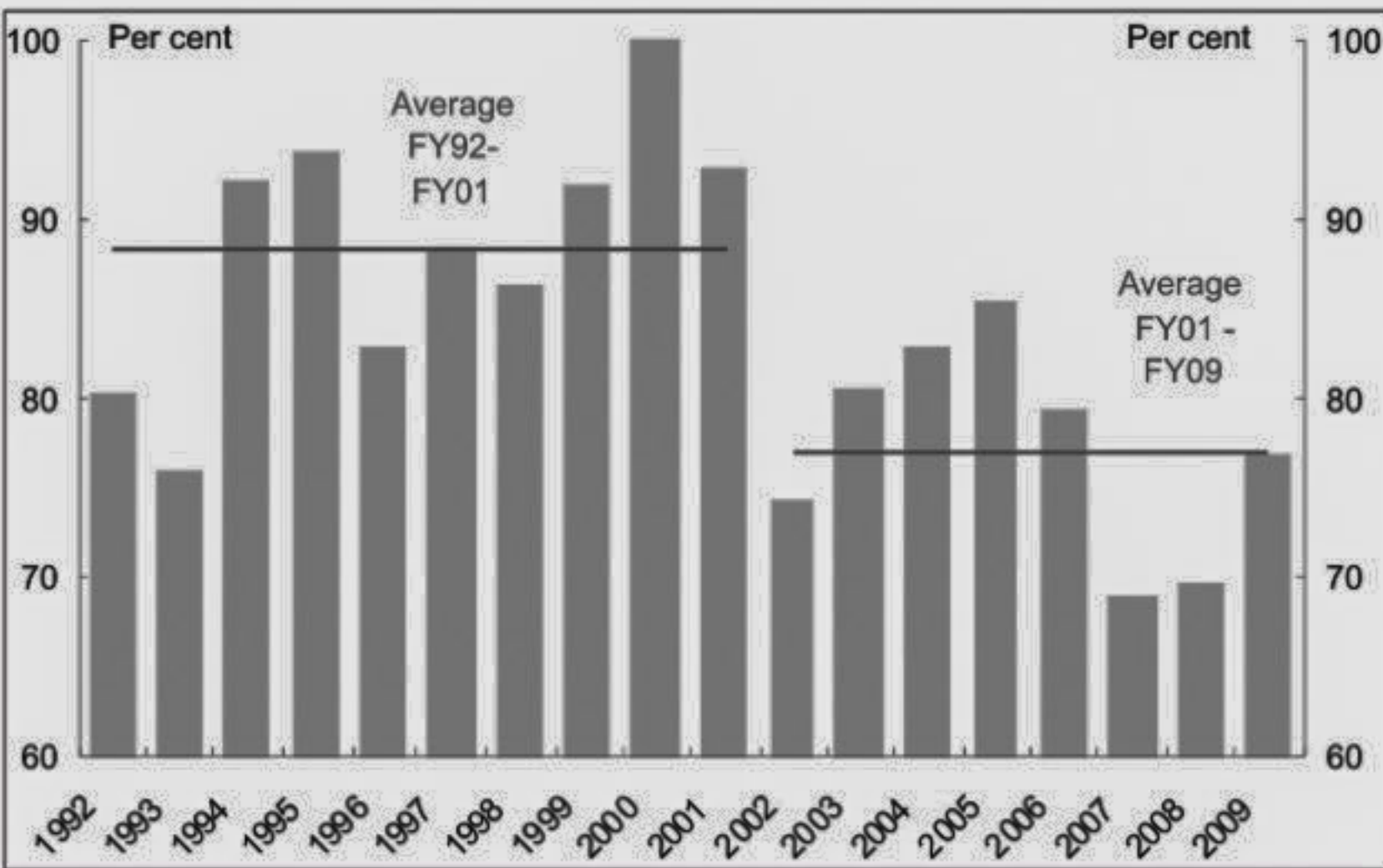


Chart 1: ADP implementation rate (actual as percentage of original ADP)
Source: Ministry of Finance, Bangladesh Bureau of Statistics, author's calculation.

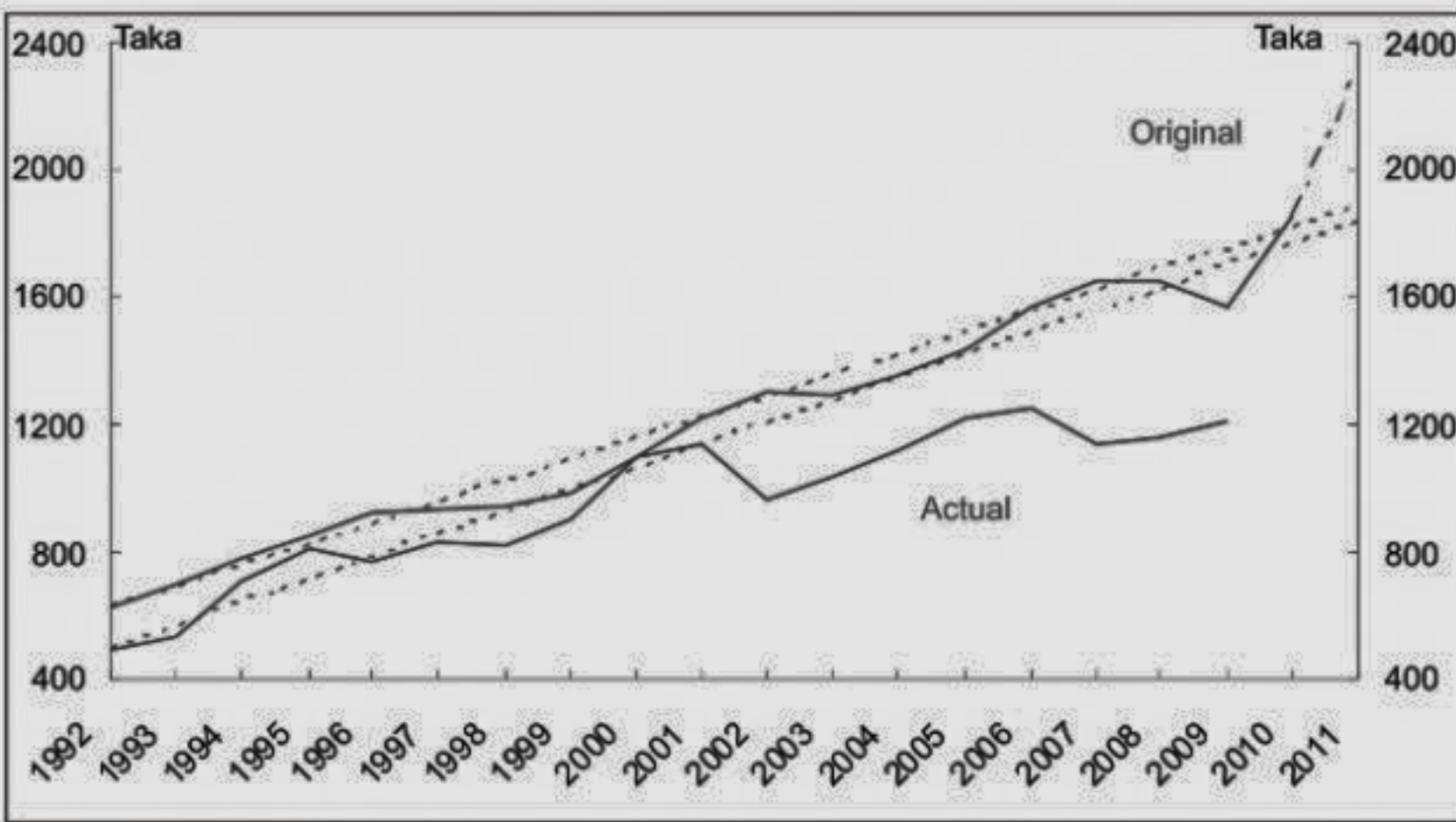


Chart 3: ADP per capita
The dotted lines represent the trend path achieved between FY92 and FY01. Source: Ministry of Finance, UN Population Database, author's calculation.

a "second best" policy outcome -- the "best practice" of selecting and fully implementing projects based on a meritocratic criteria being unavailable due to political economy reasons?

If this "second best" approach is what the government is following, then the focus on the implementation rate might be misplaced. Indeed, in this scenario, if the government feels compelled to fully implement the announced ADP, there is a risk that large sums of money will be

spent on poor quality projects towards the end of the financial year.

This is illustrated in Chart 4. In this chart, the shaded area represents the range of monthly ADP implementation expressed as a percentage announced ADP over the past five financial years. Typically, there is little implementation at the beginning of a financial year, while the month of June sees a bulk of sums spent (a reflection of end of year settling of accounts).

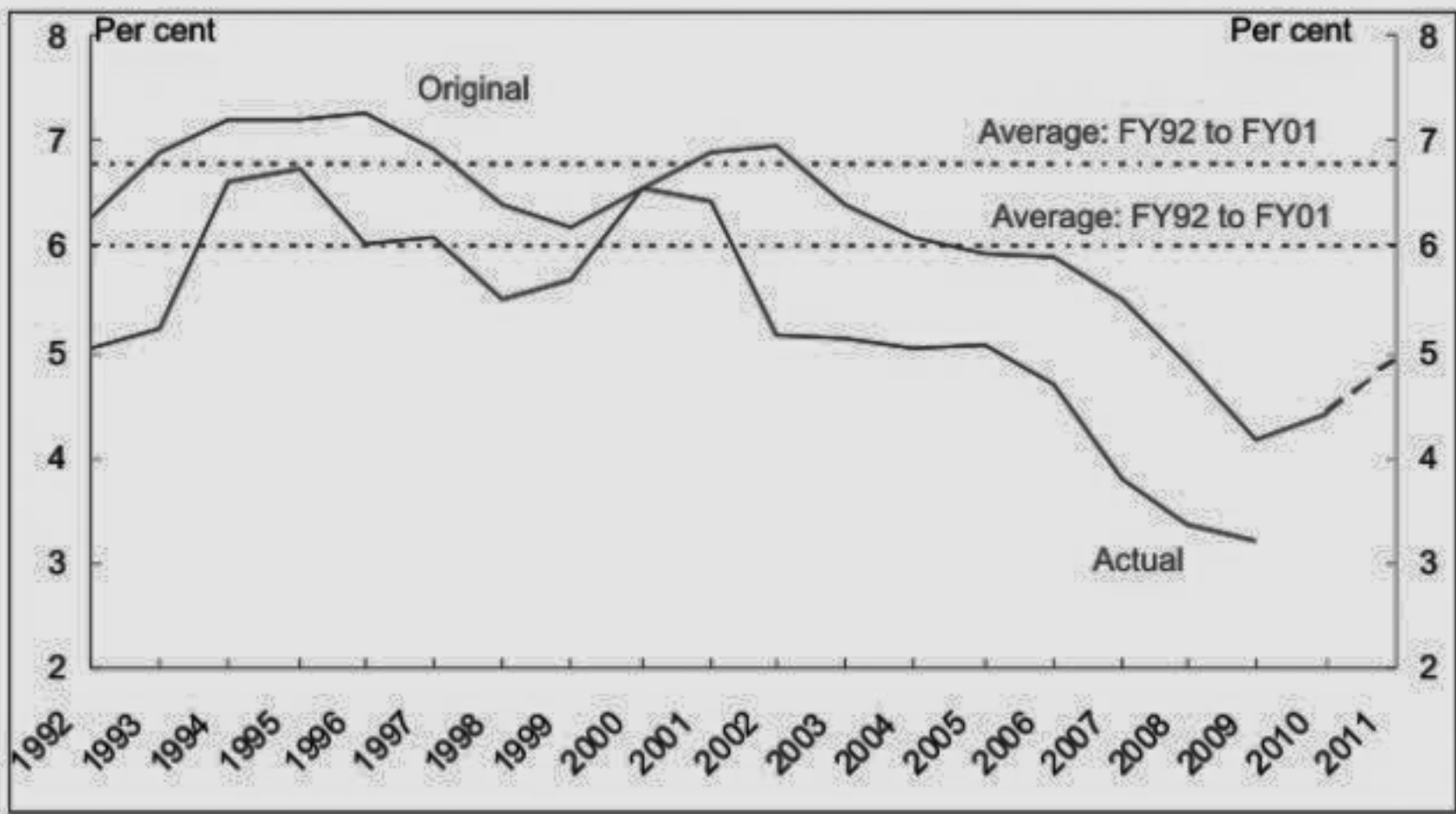


Chart 2: ADP as percentage of GDP
Source: Ministry of Finance, Bangladesh Bureau of Statistics, author's calculation.

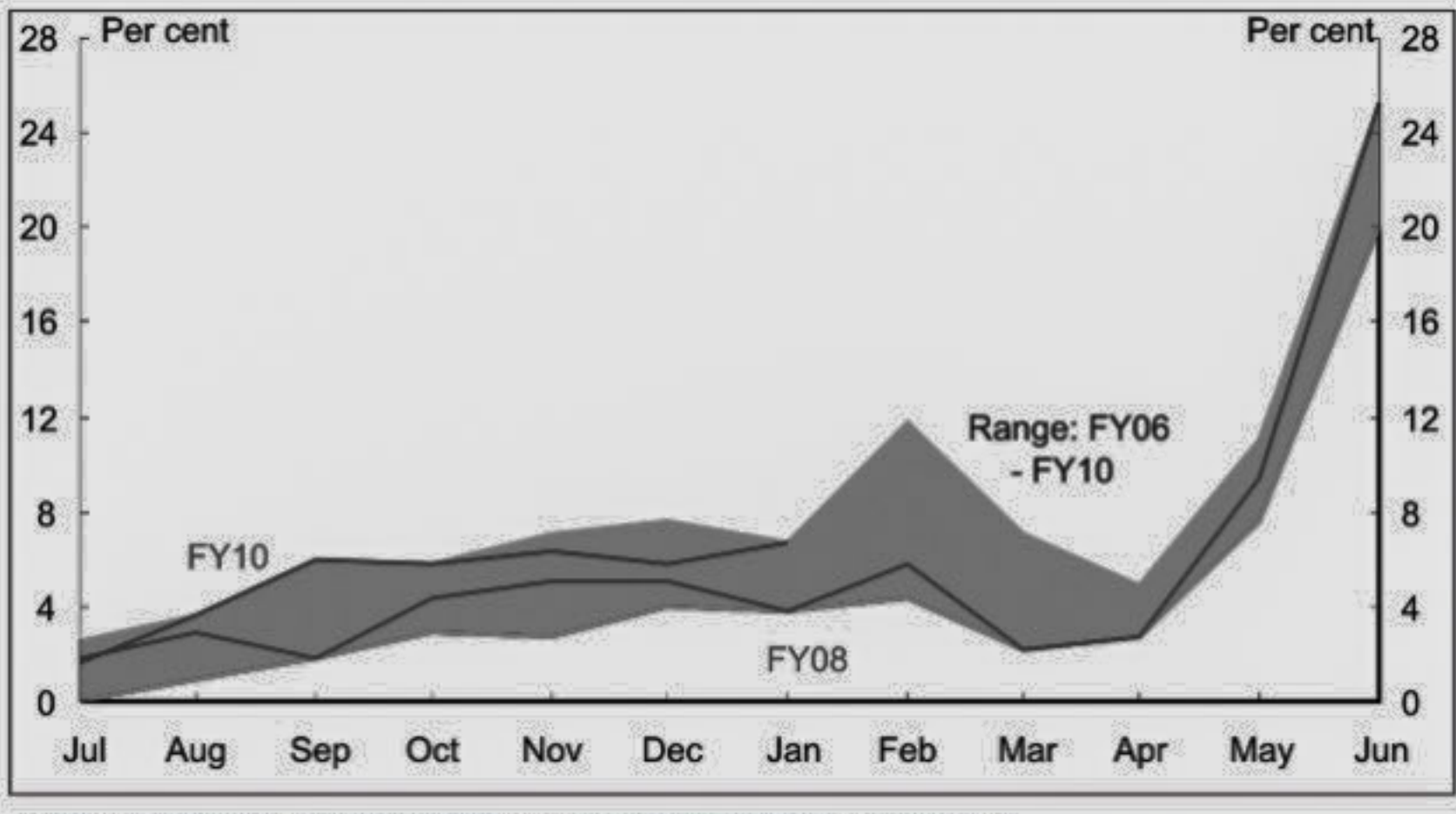


Chart 4: Monthly ADP implementation (as percentage of annual original ADP)
Source: Ministry of Finance, author's calculation.

Ideally, ADP would be implemented in a way such that monies are spent steadily in the autumn, winter and spring months -- this pattern seemed to have been holding for FY10 until January. Against this, a poor outcome is when relatively little is spent in the post-monsoon months, and by the third quarter of the year there is a lot of commentary on how ADP remains underutilised, causing a wasteful spending spree in the final two months of the year -- this is essentially what happened in FY08.

Instead of debating whether the ADP is too big or too ambitious, or calling for the "best practice" project design that might be unattainable in our weak political and institutional culture, it would be better if attention is focussed on making sure that right projects are implemented at the right time.

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Vuvuzelas and an insidious master-plan

The remaining ones will just have to be burned. Not the best conclusion to the battle against such a dangerously intelligent enemy but the best that we can do right now. Enough talk. We must act.

IRESH ZAKER

WE as a species are doomed. And I am not basing my dire prognostication on the Nimtoli disaster, or the BP oil spill, or the seven-year old Afghan boy who was executed by the Taliban for the crime of spying.

My basis for the end of humanity as we know it can be summed in one word: vuvuzela. For those who have been out of touch with all forms of civilisation for the last month, let me explain that the vuvuzela is a horn, approximately one metre in length, which re-creates the sound of an elephant or a fog-horn.

Vuvuzelas have been selected as the cultural artefact of the hour for the World Cup, which means everyone entering the stadium will be able to access vuvuzelas with relative ease. What this all means is that we will have approximately 50,000 elephants screaming at the top of their

lungs at each World Cup game.

While foreign commentators such as BBC3's Lee Dixon have opined that the vuvuzela is "quite irritating," and the prospect of having 50,000 fog-horns going off simultaneously may not be the musical choice for most people with hearing ability, my concern with the vuvuzela does not centre around the World Cup.

The World Cup is a once-in-four-years event where many crazy things happen. People fight, people die, people go crazy, people get drunk, Zidane head butts people. Generally what happens in the World Cup, stays in the World Cup. That won't hold true for the vuvuzela, I am afraid. See the unique thing about the World Cup is that it is watched by everyone. Not just adults and dogs, but young children as well.

And unlike adults and dogs, who tend to forget the silliness of the World Cup after the final whistle of the final match,



children tend to retain the worst souvenirs for an obnoxiously long time (think Maradona from 1990).

My fear for the human race stems from this. Children, by the wondrous characteristics nature has imbued them with, tend to have an almost peter-natural attraction towards all things unhealthy and annoying.

Take them to a restaurant and they will, with single-minded zeal, embrace the ketchup. Ketchup is not only unhealthy, it also has the highest potential of irritat-

ing everyone around with its squirtability and stain permanence quotient.

Thus, almost inevitably, what children will choose to take out of this world cup, will be the vuvuzela. Children around the world will acquire the vuvuzela with great facility.

After the opening ceremony, they will start crying for the vuvuzela. Parents, not wanting to ruin their own world cup experience, will buy get the vuvuzelas to shut their little gems up. The precious army will start blowing right away.

While the tournament is on, the domestic blare of the vuvuzela won't be noticed. In fact, parents will foolishly encourage the cacophony, thinking that it is enhancing the global celebratory experience.

With one month of practice, each child in each home will become a vuvuzela expert. Then, the World Cup will end. Relative normalcy will ensue for adults. Calm and peace that we are used to for four years between World Cups.

Except, the vuvuzelas will still be around.

And the children will be blowing them with unprecedented vigour and skill. For every vuvuzela burnt, the children will dig up another one. Ultimately, the parents will have to do what you need to do when there is a wild elephant in the house. Kill it. And thus the human race shall cease to perpetuate.

The origins of the vuvuzela are murky. There is a man in South Africa who claims to have invented it. His name is Freddie "Saddam" Maake. Are you kidding me? From my perspective, it is obvious what is happening.

There cannot exist any human named Freddie "Saddam" Maake. Clearly he is an alien, and the vuvuzela is part of a coldly efficient master-plan hatched by a highly evolved and sophisticated race

from outer space, determined to take over the resource-rich planet that is Earth.

One cannot help but wonder at the brilliance of our foe. Using our children to perpetrate global infanticide. Without using a single bullet. The enemy is like the British conquerors on brain steroids. Chilling stuff.

However, while the future is very dark, it is, contrary to my earlier assertions, not completely dead. We have spotted the enemy's plan, and can still do something about it. Granted, we are not playing with a lot of time here. But action is possible. We don't even need to confiscate all existing vuvuzelas. Instead, we should insert keys into all vuvuzelas made for the global market, thereby turning it into a proper musical instrument like the coronet or the oboe.

The one thing children hate more than eating vegetables is learning to play a musical instrument. Once the World Cup is over, the vuvuzela will be silenced forever, in most parts of the world.

The remaining ones will just have to be burned. Not the best conclusion to the battle against such a dangerously intelligent enemy but the best that we can do right now. Enough talk. We must act.

Iresh Zaker is an actor and an advertising executive.

Recovery or reining in deficits?

On the other hand, if the stimulus is withdrawn too soon it stifles demand, increases unemployment, cuts the recovery short and eventually leads to a deflationary situation as it happened in Japan.

CHAKLADER MAHBOOB-UL ALAM

A two-day summit meeting of finance ministers and central bank governors from the world's twenty leading economies recently came to an end. It was held in Busan, the second largest city and the main port of South Korea. The principal item on the agenda was global economic recovery. In view of the growing European debt crisis, discussions centred on finding a balance between two conflicting strategies: continuing to stimulate recovery as many American economists recommend and taking drastic measures to reduce deep fiscal deficits, the primary concern in Europe.

This is not a new debate. It has been

going on since 1929, when the Great Depression started. That was no doubt, the longest -- lasted until 1939 -- and the most severe economic depression in the history of the industrialised Western world. The New York Stock Exchange crashed in 1929 and stock prices continued to fall for the next few years forcing many banks and other financial institutions into insolvency because of the precipitous fall in the value of their assets and huge loan losses. It seemed that everyone was trapped in a vicious circle. People not only lost their savings but also their confidence in the economic system which made them very cautious while spending money. A continued fall in the aggregate demand caused production to fall and unemployment to rise.

Following the conventional wisdom, President Herbert Hoover thought that the best way to stop this downward spiral movement of the economy was to balance the US budget. Unfortunately, it had just the opposite effect. A contracting economy had already caused government revenue and tax receipts to fall. Further tightening of the budget meant cutting government spending. The situation kept on getting worse.

In 1930, an English economist called John Maynard Keynes came up with a new theory. He said that in depressions, market forces were not enough to achieve recovery. The government, instead of depending on the so-called theory of competitive adjustment should play a more active role. He felt that in minor recessions, monetary policy in the form of easier credit and lower interest should be enough to restore aggregate demand. But in cases of depressions, he recommended deficit spending to stimulate the economy. While formulating the New Deal which played a significant role in bringing the United States back to the path of economic recovery, President Franklin D.

Roosevelt took in to account the recommendations made by Professor Keynes.

Unfortunately, history has a habit of repeating itself. In 1989, the Japanese economy was considered as one of the most dynamic and powerful economies of the world. But like the Americans in the late twenties, the Japanese were unaware of the fact that they had created an asset-price bubble economy. Fuelled by easy credit, unbridled speculation and unparalleled greed, Japanese equity and real estate markets had reached astronomical price levels.

On December 29, 1989, the bubble burst. The Japanese government slashed interest rates, provided liquidity to its banks to keep credit flowing and gave fiscal stimulus. Today, twenty years after that debacle Japan's government debt burden still stands at approximately 200% of GDP. Unfortunately, Japan is still suffering from deflation because lured by false signs of economic recovery, the government tightened fiscal policy before private demand was strong enough to sustain recovery. However, unlike Greece in

the current debt crisis, the markets never lost their faith in Japan's creditworthiness.

Today, most economists recommend deficit spending in times of recession but there are serious differences of opinion among them over the size and duration of the deficit.

There is a consensus that small short-term deficits help end recessions, if they are managed properly.

A big long run deficit may lead to inflation and even worse, to the possibility of creating the next bubble. This may also induce the markets to lose faith in the creditworthiness of the country concerned as it is happening now in the cases of Greece and Hungary. High long run deficits have a tendency to become runaway deficits.

Such a situation forces the debtor country to pay ever higher premiums to service its loans and one must remember that money spent on servicing debts can not be spent for other things. It also affects perfectly healthy companies in the private sector in a perverse manner. They

are forced to pay higher interest costs, which in turn make their products less competitive in the export market. As a consequence, it becomes more difficult for the troubled country to achieve economic recovery.

On the other hand, if the stimulus is withdrawn too soon it stifles demand, increases unemployment, cuts the recovery short and eventually leads to a deflationary situation as it happened in Japan.

So as Pier Carlo Padoa-Schioppa, the chief economist of the OECD, put it recently: "To a large extent, the issue is one of timing: when and how quickly should policy stimulus be withdrawn?" Unfortunately, there are no magic formulas, hence the need for strong fiscal frameworks and efficient government institutions that can be entrusted with the task of monitoring the constantly changing economic situation -- both national and global -- and taking timely remedial measures.

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