

## Hike in power tariff

*Isn't it part of the problem rather than the solution?*

The government has announced increase in the price of electricity for retail consumers with effect from December 1. And this will be done in two phases; the second hike shall become effective from February next year. In the process there will be an increase of 21.28 percent in the price; the public will have to pay Tk. 5.2 as against the current rate of Tk. 4.16. Only this February the BERChad effected a 5 percent increase across the board.

The rationale tendered by the government that the increase will lessen the burden of subsidy is untenable. We have seen that increase in the price of electricity has a correlation with increase in corruption in this sector. Manipulation with the bills is done in exchange for graft at various levels which deprives the government exchequer. The government would do well to enhance efficiency in collection of dues and ensure reduction in system loss. It is also a fact that the degree of manipulation and evasion is less when the rate is moderate and affordable.

If the increase is to offset the burden of subsidy for running the rental power stations did not the government see it coming? In fact experts had warned the government of the dire consequences of oil-fired quick rental plants rather than coal.

The hike will further increase the burden on the general public, coming as it does in the backdrop of the increase in fuel prices, a 12 percent inflation rate and a general condition where the fixed and middle income groups are finding it increasingly difficult to make both ends meet.

The solution to the problem is not transferring the cost to the consumers who are already reeling under a severe economic strain and the decrease in their purchasing power. While we commend the government for deciding not to go for any more rental power plants it has to address other areas of concern like inefficiency, corruption and systems loss in this sector.

While the rental power plants added about 2500 MW to the national grid we lost around 1000 MW due to the shutting down of some of the old power generation plants due to technical faults and shortage of gas. Therefore, resuscitating the old power plants should be one of the top priorities of the government.

## TI survey merits serious attention

*A status we must change*

That we share an unsavoury label of being a country 'most plagued' by corruption with other South Asian countries is hardly a surprise. But when a survey by TI finds one in three South Asians saying they had to pay bribes for services they were legally entitled to, the extent of the menace is still jolting.

What's worse, the survey says Bangladesh is the most plagued by bribery with 66 percent of the people surveyed reporting that they bribed employees of public institutions. The statistics only validate what we know and face in our daily lives. Whether it is to restore a telephone line, file a general diary at the police station or get a genuine driving license -- everything requires some 'tea money' to someone or the other.

People, despite the punitive burden on their resources, have so far accepted it as being 'part of the system'. Successive governments, meanwhile, have not lifted a finger to remove this shameful stain on their governance, presumably because of the irresistible material gains accrued. Interestingly, there have been examples where corruption-free mechanisms have worked -- the efficiency of the machine-readable passport process being one of them. But without the political will to replicate this approach in all spheres, there will be little change in the infamous ranking we have earned.

But there are rumblings of protest in the South Asian region. Anna Hazare the relentless activist in India has given a direction to the general people that they must fight against state-corruption by joining hands. The survey has shown that more and more people are willing to participate in such campaigns.

In our own turf too, the people are getting increasingly disenchanted by the unbridled corruption that makes their lives so hellish. They have, moreover, no outlet, to lodge their complaints and get redress.

Thus if we are to hold even a slither of hope of eradicating this corrosive disease called corruption, the only way out

# Economy: The big picture

M. SHAHIDUL ISLAM

**E**CONOMY is no longer a business of economists alone. Both the prime minister and the opposition leader have offered contrasting views about the state of the economy. Amidst much confusion it is imperative to know which way the economy is headed.

There is no denying that the economy faces some short-term challenges -- persistent double-digit inflation is eroding poor and middle class families' purchasing power, high government borrowing threatens to crowd out private investment and the liquidity problem is hurting the business and costing

Bangladesh's most important price-exchange rate. However, the economy has some pluses as compensation -- robust export performance and marginal growth in remittances amidst global crisis and sustained agriculture growth are some of them.

Nevertheless, there is one major development in the global economy that is hurting the Bangladeshi economy badly -- economic crises generally cause the decline of commodity prices. However, this time is apparently different. The reason is that emerging markets are now new engines of global growth replacing the developed world. There is little sign that commodity prices, particularly of energy, will abate anytime soon thanks to strong demand from developing and emerging economies. Even in the case of the United States, energy prices have driven 2011 inflation with fuel oil surged 25%.

Moreover, commodities are priced in US dollars. When the value of the dollar weakens against other major currencies, the prices of commodities generally move up. While the dollar index is on decline the Bangladeshi taka rather depreciates vis-à-vis the US dollar. As a result, importers are ending up paying more, eventually passing the extra cost through to the consumers. Further, demand for imported petroleum in the country has increased tremendously to fuel the quick rental electricity plants. All these developments have put severe pressure on the balance of payments (BoP).

Now the government has little option but to seek an International Monetary Fund (IMF) bailout to address the BoP problem. Since there is no free lunch the government has to adjust energy prices and rein-in borrowing from the banking sector, among others, to access the IMF fund. This means some pro-poor programmes, including subsidies, have to be curtailed.

On higher government borrowing, both the IMF and a section of economists have similar views that the borrowing has to be reined-in. The point to ponder is whether higher

government borrowing that led to fiscal deficit is necessarily bad. Subsidising energy, except for very limited subsidies targeted at highly vulnerable sections of the society, has bad effects, as documented in the Growth Commission Report 2010 that examined what policies worked for thirteen successful economies that sustained high growth rates for over 25 years after World War II. But the report also cautioned that "reduction of fiscal deficits, because of short-term macroeconomic compulsions, by cutting expenditure on infrastructure investment or other public spending that yields large social returns in the long run is also a bad policy."

catch-up theory, the lower the initial level of per capita income the higher will tend to be the subsequent growth. This can be achieved by high rates of capital accumulation as well as the diffusion of technology from more technically advanced economies. Liberalisation of Foreign Direct Investment (FDI) is indispensable regarding this.

Second, Bangladesh's demographic window opens with the rising share of working-age population and declining dependency ratios, generating savings and investible surplus. This is a once in a lifetime opportunity to transform the country from lower to middle-income, maybe even higher middle-

will continue to grow given their positive nexus. The state should play a proactive role to expedite the pace of urbanisation and facilitate basic infrastructure and utility services. Successful urbanisation requires huge funding, and a lion's share of this can be channelled from non-banks, from home and abroad, expediting financial sector reform. It also needs reforming of the tax system that now heavily favours the wealthiest.

Financial sector reform should be a priority, making the central bank a de facto independent institution. India's example is worth looking at since it has developed one of the best financial systems among emerging markets, creating multiple avenues to ensure much needed external finance. The recent deadlock in financing the Padma Bridge by relying on donor agencies is yet another reminder that the country must develop a sophisticated financial system that could channel finance through various avenues to build its badly needed infrastructure.

Last but not the least is the fact that, though it has been less appreciated at home, Bangladesh's success in social sector can support its growth efforts significantly. It is estimated that the actual growth rate of South Asia has been at least one percentage point lower than the potential growth owing to the gender imbalance. Bangladesh's stride as far as gender balances is concerned is a positive one.

In materialising Bangladesh's medium to long-term prospects, the challenges are not merely its unstable politics, poor governance and weak institutions. Interestingly, with all these adverse factors, Bangladesh has demonstrated steady growth in the past -- what many call the "Bangladesh Paradox." Some argue that higher than the current growth is only possible if those binding growth constraints are addressed. There is also a worrying trend -- the rise of "illiberal state." Instead of promoting the development of private sector and the social sector the state uses its different organs to discriminate business outfits, giving a wrong signal to FDI and further weakening the institutions.

That said, Bangladesh economy today is at the crossroads. The short-term challenges could markedly destabilise the economy's macroeconomic stability, jeopardising the country's medium-term prospects, if not addressed prudently. However, crises also offer some opportunities. It is high time to reform the economy, particularly the financial sector, to materialise the country's medium-term economic potential.

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The advantage Bangladesh has is that its external debt is less than 25% of its GDP -- which is one of the lowest in the world. Moreover, it has better growth prospects. The government should not completely surrender its policy autonomy to the IMF, curtailing its development expenditures and jeopardising the economy's medium to long-term prospects. This brings the next critical issue concerning the economy. While the existing short-term challenges need to be addressed sooner rather than later, they should not be at the cost of the country's medium-term potential. What are the prospects that the economy offers?

The economy still shows much promise to grow at 7% to 8% in the near future because of the age of economic convergence, favourable demographic changes, steady urbanisation, strong domestic demand and better social indicators, among others.

First, according to economic

income country, if East Asia is of any inspiration. It was no accident that the stock-market capitalisation went up over 45% of the country's GDP in 2010 from merely 10% even a couple of years ago. But with the underdeveloped corporate sector (reflected in shortage of primary shares in the equity market) and poor regulations nearly half of that money was wiped out from the financial system.

Nevertheless, demographic transition is a continuous process, and the short-term decline in savings (also owing to inflation) is likely to recover if enough jobs are created by reforming the economy, making room for the private sector.

Moreover, to transform "demographic window" into "demographic dividend" the state must invest heavily in health and education.

Otherwise, this will become a demographic burden rather than an asset.

Third, with steady economic growth, the pace of urbanisation

| The New York Times EXCLUSIVE

## Guantanamo forever?

CHARLES C. KRULAK AND JOSEPH P. HOAR

**I**n his inaugural address, President Obama called on us to "reject as false the choice between our safety and our ideals." We agree. Now, to protect both, he must veto the National Defense Authorization Act that Congress is expected to pass this week.

This budget bill -- which can be vetoed without cutting financing for our troops -- is both misguided and unnecessary. The president already has the power and flexibility to effectively fight terrorism.

One provision would authorise the military to indefinitely detain without charge people suspected of involvement with terrorism, including United States citizens apprehended on American soil. Due process would be a thing of the past. Some claim that this provision would merely codify existing practice. Current law empowers the military to detain people caught on

the battlefield, but this provision would expand the battlefield to include the United States -- and hand Osama bin Laden an unearned victory long after his well-earned demise.

A second provision would mandate military custody for most ter-

*A third provision would further extend a ban on transfers from Guantanamo, ensuring that this morally and financially expensive symbol of detainee abuse will remain open well into the future. We should be moving to shut Guantanamo, not extend it.*

rorism suspects. It would force on the military responsibilities it hasn't sought. This would violate not only the spirit of the post-Reconstruction act limiting the use of the armed forces for domestic law enforcement but also our trust with service members, who enlist believing that they

will never be asked to turn their weapons on fellow Americans. It would sideline the work of the FBI and local law enforcement agencies in domestic counterterrorism. These agencies have collected invaluable intelligence because the criminal justice system -- unlike indefinite

military detention -- gives suspects incentives to cooperate.

Mandatory military custody would reduce, if not eliminate, the role of federal courts in terrorism cases. Since 9/11, the shaky, untested military commissions have convicted only six people on terror-

related charges, compared with more than 400 in the civilian courts.

A third provision would further extend a ban on transfers from Guantanamo, ensuring that this morally and financially expensive symbol of detainee abuse will remain open well into the future. Not only would this bolster al-Qaeda's recruiting efforts, it also would make it nearly impossible to transfer 88 men (of the 171 held there) who have been cleared for release. We should be moving to shut Guantanamo, not extend it.

Having served various administrations, we know that politicians of both parties love this country and want to keep it safe. But right now some in Congress are all too willing to undermine our ideals in the name of fighting terrorism. They should remember that American ideals are assets, not liabilities.

The writers are retired four-star Marine Generals.

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## THIS DAY IN HISTORY

December 26

1792

The final trial of Louis XVI of France begins in Paris.

1799

Four thousand people attend George Washington's funeral where Henry Lee declares him as "first in war, first in peace and first in the hearts of his countrymen."

1898

Marie and Pierre Curie announce the isolation of radium.

1972

Vietnam War: As part of Operation Linebacker II, 120 American B-52 Stratofortress bombers attacked Hanoi, including 78 launched from Andersen Air Force Base in Guam, the largest single combat launch in Strategic Air Command history.

1991

The Supreme Soviet of the Soviet Union meets and formally dissolves the USSR.

1998

Iraq announces its intention to fire upon U.S. and British warplanes that patrol the northern and southern no-fly zones.