

# Macroeconomic stability for economic growth and employment

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IN recent weeks and months, the issue of macroeconomic stability has received a good deal of attention in Bangladesh. The concern appears to have arisen from a number of relatively recent developments in the economy that include: (i) persistence of high inflation, (ii) excessive government borrowing from the banking system, (iii) depreciation of the domestic currency, (iv) decline in foreign exchange reserve, and the (v) continued ill health of the country's stock market.

The government has persuaded itself to consider the overall macroeconomic situation as unstable and is devoting attention to attain stability. And with that end in view, a restrictive monetary policy has been adopted. Views of independent economists/observers have ranged from terming the situation as one of crisis to one of challenge. In the entire debate, the issue of economic growth appears to have taken a back seat and that of employment is conspicuous by its absence.

Moreover, the discussion on all sides appears to be based on the conventional approach to macroeconomic stability in which double digit inflation is considered to be high and hence undesirable, a budget deficit of over 5% of GDP is also considered to be bad for an economy, and macroeconomic stability is considered almost synonymous with low inflation and low budget deficit. In this conventional approach, macroeconomic stability is necessary for achieving sustained growth, and hence needs to be pursued even at the cost of a negative short term impact on growth. That has been the approach taken by the government.

Over and above the restrictive monetary policy, the government is also being advised to adopt a similar approach in fiscal policy. A number of questions may be raised in the context of the situation and policies mentioned above.

- In a developing country like Bangladesh, should macroeconomic stability be the goal of policy making or an instrument for achieving goals like economic growth and employment?
- Should macroeconomic stability be defined narrowly as one of low inflation and low budget deficit or in a broader framework?
- Inflation is considered to be bad for an economy both in terms of its impact on economic growth and cost of living, especially of the poor. But how much inflation is bad for growth? And is inflation always bad for the poor?
- What kind of inflation are we fighting in

Bangladesh demand-pull or cost-push? And how effective is restrictive monetary policy likely to be in fighting the latter variety of inflation?

- Could one think of an alternative approach to macroeconomic policy, especially with economic growth and employment as the goals rather than stability itself?

While it would be foolhardy even to think of trying to address all the above questions in a short article like the present one, the list is provided in the hope that it might spark off some re-thinking both amongst policy makers and specialists about the goals and instruments of macroeconomic policy making in the country.

As for the first question, I guess there would be no major disagreement on the suggestion that in a country like Bangladesh, macroeconomic stability should be an instrument (rather than an objective by itself) for achieving the goals of economic growth and employment. Moving on to indicators of macroeconomic stability, while inflation and budget deficit are important basic indicators, it is important to look at the broad situation with respect to variables like (i) changes in real exchange rates, (ii) foreign exchange reserves in relation to import requirements, broad money, and short term debt, (iii) external debt as percent age of GNP/GNI, (iv) short term capital inflows in relation to GDP, (v) growth of exports, (vi) ratio of current account balance to investment and GDP, (vii) real estate prices, and (viii) real stock prices.

If one adopts a longer term view of the economy, one will note that the macroeconomic situation of Bangladesh has been quite stable for a considerable period of time in recent years. For example, inflation had been around 6% per annum until the economy was hit by the global food price crisis in 2008. While inflation increased sharply since then, much of that rise was due to a rise in the prices of food in the global market, and non-food inflation remained lower than food inflation (except in recent months). Budget deficit remained within manageable limits. Foreign exchange reserve rose to a healthy level in 2009 and declined only in 2011. In fact, foreign exchange reserve has remained well below short term debt, and there is no major reason for confidence in taka to be shaken. External debt in relation to national income is well below 30%, which is considered to be a reasonable level

for developing countries. On the whole, the situation was one of reasonable stability on the macroeconomic front. What, then, is the problem? More particularly, what has been the change?

Admittedly, there has been excessive borrowing by the government from the banking system, which could potentially be inflationary. But inflation had risen even before the increase in government borrowing, and much of that earlier inflation was food inflation. Only since December 2011, non-food inflation has been showing a sign of increase. Important questions to ask are: what rate of inflation is likely to hurt economic growth in Bangladesh and what is so sacrosanct about single-digit rate of inflation? Recent reviews of the relationship between inflation and economic growth do not support the contention of a negative relationship between the two variables. Instead, it is found that both very low

and very high rates of inflation may be inimical to growth, and there is a range of inflation rate within which growth can continue unhindered. In fact, many economists consider some degree of inflation as necessary to grease the

wheel of economic growth in developing countries. Even within an organisation like IMF, there seems to be some rethinking going on regarding how low inflation rate should be in order to maintain macroeconomic stability.

There are also examples of countries (e.g., Republic of Korea and Indonesia during the early periods of growth) where fairly long periods of high economic growth have been associated with high (double digit) rates of inflation. Actually, it is hyperinflation that is dangerous for investment and growth. For Bangladesh, empirical exercise (undertaken by the present author) covering the period 1981-2006 shows that the relationship between economic growth and inflation was statistically insignificant. Of course, such exercises should be updated to see if the relationship has changed. However, casual observation would indicate the opposite: the rate of economic growth since 2008 has not declined although the rate of inflation has been higher than before.

What about the fear that inflation hurts the poor? This certainly is a major concern, especially if it is food inflation. And in Bangladesh, it is food inflation that

was dominant since 2008. But such inflation is primarily of cost push variety and influenced more by supply side factors. Measures aimed at curbing demand (e.g., through monetary policy instruments) are unlikely to have much impact on such inflation. In India, interest rate was raised 13 times between March 2010 and December 2011, and yet, there has not been much success in reducing inflation. Instead, economic growth is slowing down.

In fact, a degree of food price rise is even considered desirable from the point of view of maintaining incentives for producers of food grains as long as the poor consumers can be protected through other means (e.g., public food distribution, cash transfers, food stamp, etc.). Even non-food inflation need not always hurt the poor. If credit growth supports increased production that is employment intensive and creates jobs, and if real wages of workers increase, inflation may not hurt the poor.

Availability and growth of credit is an important factor for a developing economy like that of Bangladesh. Of course, if credit growth is spurred by government borrowing and that in turn is mostly for meeting costs of importing fuel for energy generation, it would not contribute directly to production. But with the current monetary policy stance, the pendulum is likely to swing too far in the opposite direction. If the annual credit growth is brought down from 28% to around 20% and the burden falls primarily on the private sector, the growth of credit to the private sector may go down to around 18% or even less. And that may really hurt growth (and employment).

It would be important to find a way out of the dilemma of maintaining a healthy growth of credit for productive purposes without creating a bubble in the economy (especially in the real estate sector and the stock market). Likewise, it would be important to maintain public sector expenditure, especially in infrastructure and other development oriented activities, without giving rise to excessive deficits, although I wouldn't say that there is anything sacrosanct in keeping the deficit to within 5% of GDP. If budget deficit can be financed through means other than borrowing from the banking system (e.g., by mobilising private savings), it need not add to inflationary pressure. All these are in the realm of what I would call development oriented macroeconomic policy. That, of course, could be the subject matter of another article in future.

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## Democracy brutalised

RIFAT MUNIM

ONE does not have to be a political analyst to understand that the AL-led ruling alliance did everything that could possibly be done to strangle the opposition's fundamental political rights to hold the March 12 rally. But one surely has to go deeper to comprehend first the undemocratic manner in which all these were done and secondly the goals that the ruling alliance sought to realize through these means.

The right to hold a rally is clearly enshrined in the constitution of this country as long as it is conducted in a peaceful manner. As such, the BNP which had announced its 'Dhaka Cholo' programme several months ago had every right to arrange this grand rally to hit home its demands for the caretaker government along with other issues. If it did anything to unsettle the law and order situation during the programme, there were law enforcing agencies to contain those subversive elements and the media to report the violence that would suffice to tarnish the opposition's image. Something, however, occurred to the ruling alliance which only precipitated a different course of action.

Veering away from democratic principles, some of the esteemed leaders of the AL with important portfolios in the present government had some visionary insights that thousands in militant outfits are rushing to the March 12 rally to unleash chaos in the city and so on. As those premonitions were made public just a few days before the rally, the law enforcers wasted no time to launch a set of overt and covert plays all over the country, the pretext of which was all too obvious: To save the city from an impending BNP-sponsored disaster. Then the countdown to the rally began and the plays grew more heavy-handed and obvious: law enforcers with heavy arms ran from house to house and hotel to hotel, either searching for or arresting any new comer or BNP activist; they harassed thousands of workaholics or commuters in the streets seizing their personal belongings; they closed all the major water and road routes to Dhaka; they requisitioned virtually all the city buses so that communications came to a grinding halt; they came out on an arrest spree on the final day all over the country; to top it all off, the ruling party employed their students, labour and other political sword arms to work in complicity with the police.

The way the ruling alliance has dealt with the March 12 rally aptly reminds one of any autocratic regime. And herein lies the irony that the party which, among others, spearheaded the country's democratic movement has itself assumed the form of an autocrat. It also seems to forget that it was as a result of the anti-Ershad movement that Bangladesh finally emerged as a democracy where freedom of expression and movement matters the most. As it should be clear by now, far from trying to contain

any subversive element, the government was categorically intending to bar people from joining the rally, the objective of which was to make the rally flop. But ironically enough, despite all their heavy-handed measures, the not-too-big space in front of the BNP office (BNP was not allowed to hold the rally at the Paltan Maidan) was overflowing with people. Not a single incident of violence erupted unless law enforcing agencies or the marauding pro-AL students and labour wings assaulted the opposition first. Now the question logically arises: Did the rally end in futility? Or all those obstructions and intimidations backfired and resulted ironically in overrating a programme which otherwise would not have created such a huge furore amongst mass people. The latter, in



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hindsight, seems to be the case and rightly so, because apart from BNP activists all over the country, it is the common people who had to bear the brunt of all the repressive measures prior to the rally. Tons of vegetables and fish got rotten as those could not enter the city, a fact which will negatively impact food price in the coming days. Not only the people had to put off their business and other urgent trips but also had to bear with the humiliating, Pakistan period-styled police search both at home and in the streets. In the name of security, law enforcers in fact infused a sense of insecurity among the people who have nothing to do with politics of one kind or the other.

Whenever the opposition comes up with any programme, the AL's trademark reaction is that it is directed towards foiling the war crimes trial. It was no different in this case. Although the BNP questioned the

transparency of the International Crimes Tribunal, it brought to the fore the caretaker government as well as some other issues. There is no gainsaying the fact that the war crimes trial must be held as immediately as possible but in the same breath constructive criticism regarding anything should always be encouraged in a democratic country. Another vitriol launched by the AL is about BNP's boycotting of the parliament. As much discreet as it may sound, the very recent personal attacks unleashed by two female AL lawmakers on the opposition leader were such that BNP's boycotting does not seem unwarranted at all.

An autocrat, by definition, rides roughshod over the democratic rights of individuals and political parties. A democratic government, on the other hand, does just the opposite, paving the way for exercising individual as well as collective freedom so long as it does not stand in the way of others. In the case of the just-concluded rally, the present government, though half-heartedly, gave its nod to hold the rally yet did everything to spoil that. So it played the role of a democratic and autocratic government at the same time. In short, it was marked by ambivalence. Every act of ambivalence, as Mr Freud puts it, underlies an uncanny fear which perfectly applies to this case as well because such fears are manifest through an excessively frenzied spate of activities. What is the ruling alliance's heavy-handed dealing if not a frenzied spate of activities? Now the question is: what does the government fear so much? What does it try to conceal by repeatedly putting all the blame for whatever bad things happen in the country? There are three plausible answers for this: One, it is afraid of its failures being exposed in front of thousands of people; two, the issue of the caretaker will come to the fore again which does not bode well for the government; and three, it is afraid of being outnumbered by BNP as its own rally will be held today at the adjacent areas of the Bangabandhu National Stadium.

May be all these are valid points. May be today the ruling alliance, with law enforcers ensuring their security, will be able to gather activists twice as much as BNP's rally. May be someone will say when BNP-led alliance was in power; almost the same obstructions had been faced by AL activists during their rally. May be all these are true. But equally true is the fact that we no longer live in an ancient kingdom or under an autocrat where the king or queen's wishes reign supreme. BNP made mistakes and paid the price. If AL follows suit, it will pay the price too. People are not blind anymore. They will bide their time till the next election and let the party bosses know what is what.

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**Never mind leap day, in Asia we have a leap month**

"HAPPY Friday," I said to a reader on (you guessed it) Friday last week. Normally, I would consider this one of my less controversial statements. But he thought otherwise, narrowing his eyes. "Yes," he said. "Only it's really Saturday, right?"

Before proceeding, I should explain that all columnists attract wacko conspiracy theorists, especially me. They see us as fellow stirrers.

Before I could escape, he explained to me that since this was a leap year, and we had recently had 24 hours of February 29, the day we were calling Friday must really be Saturday, "to those of us who are not fooled."

Feeling unusually patient, I explained that in leap years the dates change, but not the days of the week. He remained suspicious. His stance reminded me of the peasants who revolted when the calendar was adjusted 11 days in 1582 because they thought 11 days had been "stolen" from their lives.

But then I remember thinking myself, as a child, that the extra day in leap years should be added in summer to give us one more day of sunshine, rather than one more day of rainy February.

To divert my conspiratorial reader from his theory that leap years were a devious trick, I pointed out that the Chinese calendar, the Hindu calendar and some Buddhist calendars don't have leap day they have leap months. (This is true.)

He was taken aback. "So you mean you think it's one month but it's really the previous month?" I nodded. "That's right. And as the decades pass, all those extra months add up, you know. That's why I still wear fashions from 1970s."

That thought silenced him. I advised him that since this was a leap year, he needed to put his watch forward exactly one year. While he was working out how to adjust it, I sneaked away.

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