

PLEASURE IS ALL MINE



SHAH HUSAIN IMAM

**T**HIS may sound like a misquote in the high-strung politics of Bangladesh today. Worldly-wise Somerset Maugham said: "You can't learn too soon that the most useful thing about a principle is that it can always be sacrificed to expediency."

Not only do our political parties don't know what is in their best interest, they even fail to understand what is expedient for them.

Even by the expediency, i.e. self-interest, criterion the ruling AL seems to have failed itself. Was the March 12 BNP's day or Mahajot government's? The AL ruthlessly suppressed BNP's "Dhaka Cholo" with a spate of preemptive strikes. These led to shutting out of all modes of transportation, arrests and parading of pantomimes, if you like. The General Secretary Mahanagar Awami League asked AL youth fronts to assist the police which, from the look of things, was brandishing sticks and staves.

This is a clear case of state power being

used to suppress dissent in anticipation of but not owing to actual demonstration of violence on the part of the opposition.

In the process, people and the economy were held ransom to the self-created vagaries of politics.

One could say, though, the AL was giving the BNP the taste of its own medicine applied to the AL while in the opposition the last time over.

One wrong cannot be righted by another wrong; only wrongs will multiply as though in a never-ending blood feud running through a tribal culture.

The AL needs to take stock of the fallout of its bulldozing dissent for that way an anti-incumbency factor gets an add-on from an under-doggish image of BNP. The victimhood card is a potent weapon handed by the AL to the BNP largely through misjudged steps. This is political ammunition given on a platter to a political party that is fraught with leadership conflict at the mid-level, let alone the party's disappointing record of parliamentary boycotts and betrayal of its con-

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situencies.

This is doubly ironical for the ruling party when it is credited with some good work with its debit side eating into whatever achievements it has on its score card.

It is stating the obvious that the AL alliance government's March 14 programme was directed at making a show of its strength on the back of BNP's March 12 grand rally. It may have been politic for the AL to have staged a show.

Nevertheless, the point is: why rallies and counter-rallies two years ahead of national poll? No one in the right frame of mind is looking to such toasty event just yet when serious governance and economic, infrastructure and regional problems cry out for urgent attention.

Equally, if not more, important is the pending agenda of working out a formula for an interim non-party arrangement to hold the next general election. When the

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The one-liner to emerge from BNP's March 12 rally is a 90-day ultimatum given to the government to finalise restoration of caretaker system, or else ... -- the usual BNP stuff.

A 90-day ultimatum in reverse also hangs on the BNP. Nine days are left of the BNP's continuing parliamentary boycott for the party to join parliament or lose its seats. Suranjit Sengupta quipped about the BNP's ultimatum saying: "Why 90 days, only 90 seconds are required to wrap up a deal."

Only a fortnight ago political rhetoric was underlaid with a certain exchange of conciliatory words between BNP and AL at the informal level. This coincided, like it or not, courted that it was, with a growing international pressure on both sides to iron out their differences on the basis

of available formulae apart from the opening provided in the SC verdict on caretaker system.

With 40 years of national independence, two decades of parliamentary democracy, and strides made in socio-economic sectors against stunning odds, can we fail to roll back the head-long plunge into the dark tunnel?

To end with Tk.2 vs Tk.2,000 anecdote, here is an antidote to mindless anger and violence in politics.

A rickshaw puller was given Tk.2 at the end of a trip by a gentleman (must be at least 3 decades ago). The rickshawallah asked for Tk.2 more. The gentleman got angry but the rickshaw puller persisted with his demand. A scuffle ensued in which the gentleman (?) landed a punch on the nose of the rickshaw puller, causing bleeding.

Thereupon, other rickshaw pullers milled around the victim and in a body they went to the police. The cop led the crowd into the gentleman's office. Result: he had to settle for Tk.2,000 to recompense the injured rickshawallah.

A small time story with a big time lesson, that.

The writer is Associate Editor, The Daily Star. E-mail: husain.imam@thedailystar.net

# Macroeconomic policy for inclusive development

RIZWANUL ISLAM

**I**N a recent article in *The Daily Star*, I had mentioned that in a developing country like Bangladesh, macroeconomic stability should not be the goal of macroeconomic policy, rather it should be a means towards attaining the broader goal of inclusive development. In that sense, it would be necessary for macroeconomic policy to have a development orientation. The purpose of the present article is to provide a broad outline of how that could be achieved.

The important elements of inclusive development include:

- Stable and sustained economic growth;
- Reduction of poverty and inequality;
- Improvement in the access to education and health services;
- Greater opportunities for productive employment; and
- Basic social protection floor for all citizens.

Since high rate of economic growth is the first item in the above list and since that is a pre-requisite for attaining the other goals, one should start there. Investment -- both public and private -- is a major driver of growth; hence policies must be geared towards that objective. While interest rate is a major determinant of investment, that's not the only factor -- especially in a country like Bangladesh. Infrastructure, including power, transport, and communication are critical factors. Improvements in these areas are essential, and that would require investment -- especially by the government. Hence, in formulating the fiscal policy, emphasis must be on public investment in infrastructure and creating necessary fiscal space for that.

If the government has to incur a budget deficit -- as is often the case in developing countries with limited internal resources -- it must look for non-inflationary means of financing the deficit. For example, borrowing from the banking system may be inflationary while mobilising private savings would not be. However, instruments necessary for using the latter, e.g., interest on deposits and other instruments of savings, may have an impact on overall interest rates and hence private investment. But as mentioned earlier, interest rate is not the only factor governing investment, and an increase in savings is anyway needed for higher investment.

As for the sustainability of budget deficit, it is necessary to identify the maximum permissible share of interest payment in GDP, and compare the actual with that maximum. If the actual is less than the maximum, fiscal deficit would not be constrained by public debt. Whether this constraint would be binding would depend on the interest rate paid by the government on its borrowing and the economy's growth rate. The former would raise the debt-service ratio whereas the latter would reduce it. From this point of view also, main-

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taining a high rate of growth would be important.

Reduction of deficit may be achieved by a prudent management of public expenditure rather than through blanket cuts in expenditure. Public investment in infrastructure and expenditure on education and health services must be safeguarded. While the former is essential for creating incentives for further investment, especially by the private sector, the latter is essential for attaining the human development goals.

Monetary policy is important for fighting inflation. But it would be important to examine the components of inflation and their determinants and undertake measures to fight inflation accordingly rather than following the orthodox approach of adopting a restrictive monetary policy at the first sight of inflation. If supply side factors like shortfall in production of some commodities, rise in the prices of imported goods, or a general increase in global market prices, are found responsible for inflation, measures would have to be formulated to address such factors.

In order to maintain equilibrium in the balance of payment and avoid (or reduce) trade deficit, it would be important to let the exchange rate reflect the true price of the domestic currency. This may be done by allowing the exchange rate to change smoothly through "controlled devaluation" (i.e., the adoption of "crawling peg system"). The impact of devaluation on both exports and imports should be monitored carefully to see whether it is producing the desired effects and whether inflation is being imported through higher prices of imports (as depreciation of the domestic currency will increase the domestic prices of imported goods).

What's the current situation in Bangladesh? If the goal of employment is regarded as important, the following numbers will have to be considered. Every year, some 1.8 million people enter the labour force for whom employment is needed (not to speak of the already unemployed and underemployed). Assuming that 500,000 people can find jobs abroad, we would still

be left with a minimum of 1.3 million. Add to that the backlog of unemployed and that the goal would be to employ at least 300,000 of them. Thus we would need domestic employment for at least 1.6 million every year.

On the side of demand for labour, every percentage point of GDP growth has been found to create some 250,000 jobs. Hence, in order to generate 1.6 million jobs per year, a GDP growth of 6.4% would be absolutely essential. And if the employment goal includes the transfer of some of the underemployed to better jobs, the required GDP growth would be correspondingly higher. Hence, macroeconomic policies must be geared towards achieving GDP growth of over 6.5% per annum.

Given the current investment requirement per unit of GDP growth, the rate of investment required for achieving a GDP growth of 6.5% would have to be about 26% -- unless of course the pattern of growth changes in such a way that investment requirement will be lower. For example, if more of output growth comes from relatively more labour intensive sectors, e.g., labour intensive manufacturing, construction and low end services, investment requirement may be correspondingly lower. Fiscal and monetary policies could be used not only for achieving the investment rate indicated above but also the desired change in the pattern of growth.

Since the goal of inclusive development includes the implementation of a basic social floor, budgetary provision would need to be made for measures aimed at that goal. There is already a plethora of social safety net measures that cost the government some 2.5% of GDP. One example may serve to indicate the fragmented nature of such programmes and the need for a serious re-thinking of the strategy for social protection. Under the old age allowance scheme, an amount of Tk.300 per month is paid to the old in poor households. The number of people currently covered by the scheme is about 2.5 million -- which is less than 6% of the total number of poor people in the country. And the amount paid per person is not even equal to two days of unskilled workers' wages. The above example should serve to highlight the need for a serious review of the effectiveness of the existing measures, their rationalisation, and adoption of a national framework for social protection for all with a particular focus on the poor. Experiences of some developing countries (e.g., Brazil) indicate that the effective use of cash transfers can contribute significantly to the reduction of poverty and inequality. The budgetary implication for such a comprehensive policy in Bangladesh would have to be worked out, and fiscal policy would need to be geared towards meeting that need.

The writer, an economist, is former Special Adviser, Employment Sector, International Labour Office, Geneva.

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## Libya's franchise fiasco

GEOFF D. PORTER

**L**IBYA'S new electoral law, passed by the National Transitional Council last month, provides guidelines for selecting the country's first-ever democratic government. Many, including the United Nations, hailed the law's passage as a significant step down Libya's rocky political road.

But even if, as planned, a government is elected later this year, the law contains a plank that may ensure that Libya remains unstable and economically precarious, a danger to both itself and its neighbours: namely, it prohibits members of the military from voting.

Excluding soldiers from elections is an understandable and real concern for countries

transitioning from dictatorship, which relies on brutal militaries to quash domestic support for democracy. Libya clearly fits into this category: Col. Moammar Gadhafi's regime was unrelentingly violent, and the military was often the manifestation of that violence. In transitional, post-conflict states, similar laws are intended not only to keep generals out of the presidential palace but also to ensure that the military remains a professional body responsible for securing the country's sovereignty and protecting its national interests.

Egypt, Libya's eastern neighbour, provides a cautionary lesson: In Cairo, the Supreme Council of the Armed Forces took over the government after President Hosni Mubarak was toppled, but despite assurances that it would hand power over to civilian authority, it has not done so -- nor is it likely to do so soon.

At the same time, what works in other countries may be counterproductive in Libya. Unlike Egypt, Libya has a strikingly weak military that poses very little risk of becoming a political bloc. Instead, the country is awash in militias -- there are reportedly as many as 200,000 militia members in a country of 6 million people. And the militias are shockingly well-armed, the result of having raided Qaddafi's weapons depots during the active

stages of the conflict.

The militias act with impunity, and the government is unable to do much about them except plead with them to lay down their weapons. Political maneuvers, like incorporating former militia leaders into the cabinet of Abdel Rahim el-Keab, the acting prime minister, have all failed. Put differently, the transitional council and Keab rule a population that is better armed than they are.

One of the proposed solutions for resolving the situation is to recruit more than 50,000 militia members into a regular, professionalised Libyan military under the control of the Ministry of Defense (other militia members would presumably turn over their weapons of their own accord as economic opportunities increase, and

still others would be disarmed through weapons buy-back programmes).

And this is the problem with the electoral law: Why would militias, whose members can vote and thus express themselves as a powerful bloc, disband so their members can join the military, which is explicitly excluded from elections? In other

words, the law's consequences -- keeping the militias alive -- will run directly counter to its aim, namely that of reducing the role of armed groups in Libyan politics.

As long as militias have power, Libya's economic normalisation will be postponed. If groups outside the government can shape the security environment, outside investors, particularly oil companies, will be wary of returning to the country. Without foreign companies, Libyan oil production will not return to pre-conflict levels and, worse, it risks slipping backward. Revenue could decrease at the very time the government needs it most.

Passing an electoral law within a year of the revolution should give free Libya something to celebrate. But in this case, the quick passage of a fundamentally flawed electoral law means that the National Transitional Council is on the cusp of institutionalising democratic failure.

The writer is a risk consultant specialising in North Africa.

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