

CONNECTING THE DOTS

A Greek exit is in no one's interest



A. R. CHOWDHURY

ALL of Europe is eagerly waiting for the results of the upcoming Greek election on June 17. The Eurozone is once again at centre stage in the world economy, with a financial crisis that has spread beyond Greece.

The inconclusive outcome to the May 6 election has left Greece without a fully functioning government. The "pro-euro" parties (New Democracy and PASOK) fell short of the majority needed, in part due to a strong showing of the Syriza (Radical left) party, which campaigned on a platform of rejecting the European bailout package. After unsuccessful attempts by the political parties and the Greek president to form a coalition government, new elections are now set for June 17.

The election outcome on June 17 is difficult to predict. There are three possible scenarios. First, if a pro-austerity coalition forms the next government, the outcome is likely one where Greece muddles along.

Second, if an anti-austerity government is formed, the outcome will be negative for financial markets, but it is not clear that Greece will exit the euro zone. Indeed, the platform of the left party that gained significant support in the recent election is one that argues for less austerity but continued participation in the euro. The problem is that they need austerity to qualify for financial aid, which is required to stay in the euro.

Finally, there is the outcome where no government can be formed. This would prolong the uncertainty, breeding financial risks until a new government is formed.

It seems likely that all efforts will be made to keep Greece in the euro, even if an anti-austerity government takes power. What could cause a Greek exit from the euro zone?

Greece cannot, under the European Treaties as currently written, be formally expelled from the euro area or from the European Union. However, I can think of at least one scenario under which Greece could be forced to leave the euro zone.

Given the increasingly uncertain situation, the Greek banking sector has suffered significant deposit outflows

in recent days. As deposits and other private sector funding sources

have dried up, Greek banks have become increasingly reliant on the central bank funding. While a continued rapid deposit outflow would be viewed with extreme concern, I doubt it would be the event that would precipitate any euro departure by Greece.

If, on the other hand, there is an unfavourable election outcome, the Greek government would likely run out of cash far sooner as its cash position is already very thin. If Greece refuses to live up to the austerity measures and reform its economy, the so-called "troika" (i.e., the European Commission, the European Central Bank and the IMF) likely would be unwilling to approve the next tranche of financial aid to the Greek govern-

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ment. In that case, the Greek government would probably default on its debt.

This could precipitate Greece's departure from the euro and the introduction of a new currency.

If the Greek government decides to abandon the common currency "euro," they would create a new currency and convert all the financial claims in the domestic financial system to the new currency. I believe a new Greek currency could lose 50% of its value vis-à-vis the euro.

What would be the impact on the Greek economy? The Greek banks would see their balance sheets wiped out as their domestic bond holdings would become worthless. Inflation would increase significantly and the new currency would depreciate.

The sharp drop in the value of the new Greek currency would lead to a default by both the Greek public and private sectors on their foreign debt. This would cut the country from any external financing, forcing an abrupt correction on its current account deficit.

What would be the impact of a Greek default on the

European financial system? Greece still owes about 300 billion in bonds and multilateral loans from its two bailouts in the last two years. A Greek default caused by the country's exit from the euro zone would imply a very low recovery rate.

Also, the yields on sovereign Irish, Italian, Spanish and Portuguese bonds would increase after the Greek default. It is likely that some banks outside of Greece would need support from their governments.

The worst possible scenario would be that of a Greek exit precipitated by a run on Greek banks, because the risk of the bank run spreading to other Eurozone countries would be very high and difficult to contain. Traditional bank runs can be stymied by a deposit guarantee. However, a bank run fuelled by fears that the currency will be sharply depreciated is more difficult to defuse.

If Greece were to abandon the euro, a roadmap would then exist for an event that once was considered inconceivable: a country's exit from the Eurozone. If Greece can leave, what is to prevent Portugal, Ireland, Spain and Italy from pursuing the same path? Economic collapse and exit from the Eurozone, if confined solely to Greece, would not really matter for the global economy. However, Italy and Spain collectively account for 5% of global GDP. The potential financial and economic fallout of a Eurozone exit by these large economies are significantly more important for the global economy than a Greek exodus.

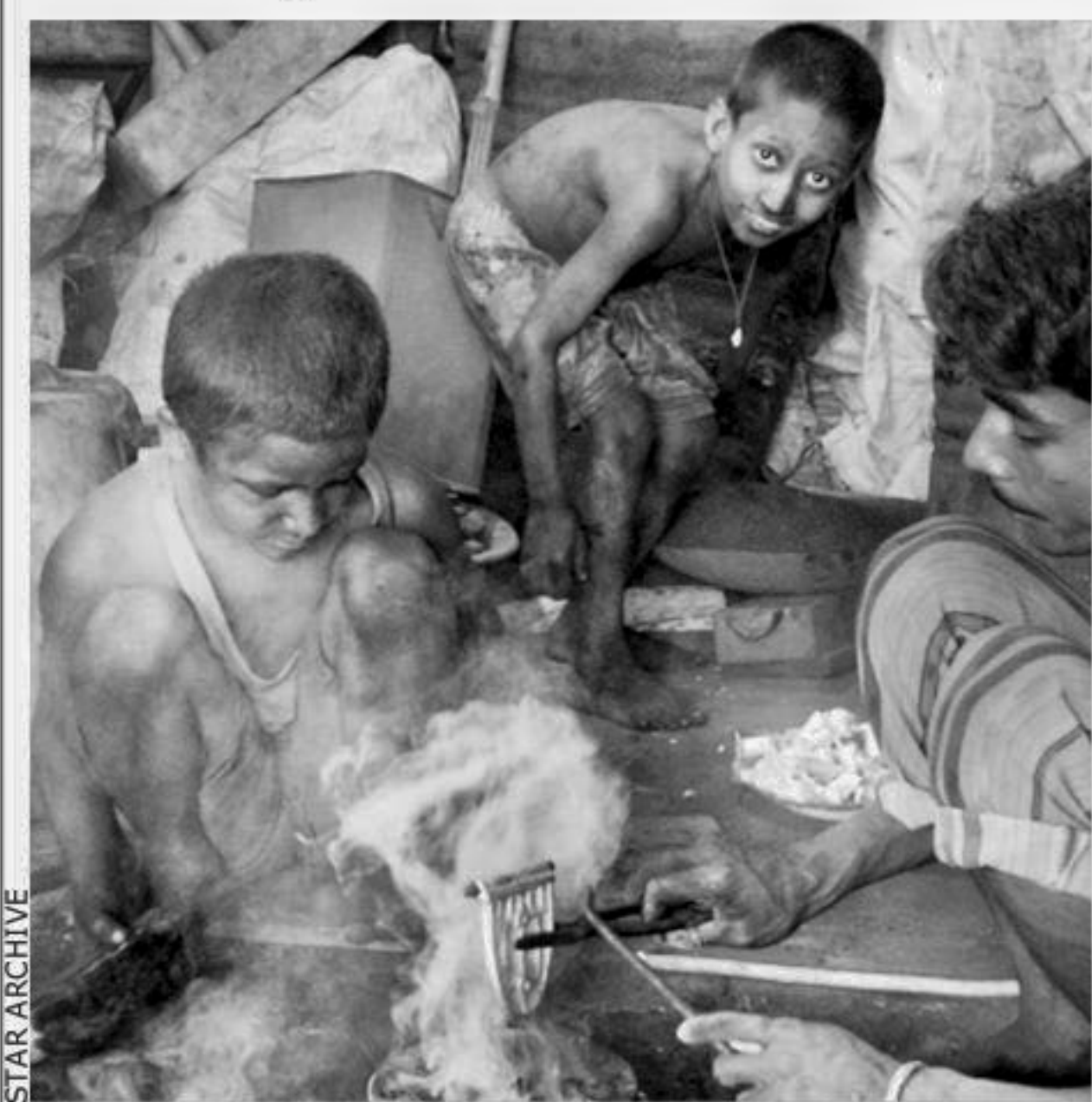
Thus an exit from the Eurozone likely would have significantly adverse effects on most sectors of the Greek economy. Given the relatively small size of the Greek economy and financial system, Greek default and abandonment of the euro should not have a marked effect on the global economy as long as its fallout can be confined to Greece. However, I am not convinced that the fallout can be so easily contained. Expectations of more exits from the Eurozone would ramp up significantly, and further abandonments of the euro could become self-fulfilling prophecies.

A Greek exit from the Eurozone is, therefore, in no one's interest. The resulting outlook for Europe would be highly uncertain and would pose the number one risk to the global economy.

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WORLD DAY AGAINST CHILD LABOUR

The exploitation continues



MARUFA HAQUE

SLEEPY morning! The jingle of newspaper names called out to the wind woke me up. I searched for the hawkker but couldn't find him, though his young voice sang loud and clear through my window. A tiny boy of about 3 feet height held about 50 copies of various newspapers which probably weighed more than him! His age, hardly 6. He was standing in between traffic.

A speeding bus hurtles by. He pocketed the spare change he just received and jumped out of the way in the nick of time. Close your eyes and think of this boy when you sleep -- is he real? The bus would hardly feel his little bones smash if it drives over him tomorrow.

June 12, World Day against Child Labour, and an ILO approved holiday aims to raise awareness to prevent child labour in both economic and military fields. Today is June 12. Thank you ILO, but what does this mean for the little boy on my street selling papers?

There are a multitude of causes behind child labour: illiteracy, family disintegration, lack of knowledge of parents, ill-health of parents. The root cause is of course poverty.

Poverty creates the preconditions for exploitative relationships putting children's lives at risk. Sweet, innocent children enter abusive realities just to survive. Such circumstances impede the physical, mental and moral development of the child.

Today's children are the future of tomorrow, they lay at the heart of social development. Denying them the right to develop, learn and grow, strips our nation of its chance to excel in the global and spiritual arena.

Social norms and economic realities mean that child labour is widely accepted and very common in Bangladesh. Young children serve at roadside tea stalls and weave between cars selling goods to motorists. Other children work in jobs that are hidden from view, such as domestic work, which makes monitoring and regulation difficult.

Many families rely on the income generated by their children for survival, so child labour is often highly valued. Employers prefer employing children -- they are cheaper and considered to be more obedient.

When children are forced to work, they are often denied their right to education, leisure and play -- exposing more vulnerability of being trafficked, abused and exploited. There are about 3.2 million official child labourers in Bangladesh. In slums almost one in five children aged 5-14 are child labourers and of these only 25% attend school.

Approximately 11 million children are extremely poor and hence doubly exposed to vulnerabilities and risks, physical, psychological and sexual.

Thousands of Bangladeshi children work in hazardous jobs, identified by the ILO, that expose children to hazards including: physical, psychological or sexual abuse; excessive work hours; an unhealthy environment. Children work in brick/ stone breaking for the construction industry resulting in some sort of respiratory problem, and are never provided with any safety gear.

According to Bangladesh Shishu Adhikar Forum, our child workers are involved in 430 types of economic activities. Bangladeshi children continue to work in five of the worst forms of child labour, namely welding, auto workshops, road transport, battery recharging and tobacco factories.

Working children, particularly those in unseen jobs such as domestic labour, are at risk of abuse and exploitation -- often physically and sexually punished at their workplaces -- that too behind closed doors. Almost all child domestic workers work seven days a week and 90% sleep at their employer's home, being completely dependent on their employers, with strict restrictions on their mobility and freedom.

Bangladesh enacted the Labour Act in 2006, including a chapter on child labour, that forbids employment of children less than 14 years of age and prohibits hazardous forms of child labour for persons under age 18. However, children aged 12 and above may engage in "light work" that does not pose a risk to their mental and physical development and does not interfere with their education.

According to the National Education Policy, education is free and compulsory up to grade eight, however it is estimated that more than one million children have never been to school. Many children drop out of the education system before completing primary school to work and support their families.

Many miss out on their right to education because they do not have the time to go to school. Working children thus get stuck in low paying, low-skilled jobs, thus continuing the cycle of poverty.

The government runs various programmes to eradicate child labour in collaboration with various donors, national and international NGOs under the Ministry of Labour and Employment. Let's hope our government can do something meaningful for our children, our future, lest we perish at the hands of greed and poverty.

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Some thoughts on the defence budget

ISHFAQ ILAHI CHOUDHURY

ON June 7, the finance minister had put up for approval in the Parliament a revised budget of the current financial year (FY) of 2011-12 and a proposed budget for the next FY i.e. 2012-13. With the possible absence of the opposition parties from the Parliament, the budget session is going to be one of tedious repetitive accolade for the government from the treasury bench members, each ending the speech with a list of demands from the MPs' constituencies for roads, bridges, schools and hospitals.

Defence, although a major expenditure head of the government, will remain outside the purview of the parliamentary debate, to be "guillotined" on June 30. Traditionally, the finance minister in his budget speech explains in detail what the government achieved over the past years and what it wishes to achieve in future, while having only a cursory paragraph on defence. This time, however, for the first time, the minister outlined a shopping list of defence equipment that the government wishes to procure for the forces. This is a welcome departure from the past. However, I do not foresee any serious debate in the Parliament on defence policy, expenditures or on procurement priorities.

Although defence accounts for 6-7% of the government expenditure, and is the second largest expenditure head of the government, it remains outside any critical examination. Despite three decades of democratic polity, much of defence affairs remain hushed in a cloak of official secrecy.

While everyone agrees to the need for a military force, there is little unanimity on what should be its size and shape and how much resources should be spent for its upkeep. Whether the money spent for the military is a drain on the economy or the money could be better spent for national development has been an age-old debate. Gun-versus-butter debate rages in every country, especially where free speech and democratic rights are enshrined. Thus, a delicate balance between military expenditure and development expenses is what is needed.

While one can argue that the money spent for buying tanks, submarines or fighter aircraft could be better spent in building schools, hospitals or roads and bridges, one could also argue that what use those would be if there is no peace or if the country is overrun by an aggressor.

In a country such as ours, military is an important source of trained manpower -- from drivers to technicians, from pilots to aircraft engineers from rescue divers to ships' captains. The leadership and academic training that military imparts prepares one to shoulder responsibilities far removed from his/her specialisation. No wonder, we see ex-military personnel actively

contributing in every sphere of our national life.

Bangladesh military has traditionally been allocated between 1.3 to 1.5% of GDP over the last decade. Despite a steady percentage of resources going to the military, the net amount spent has more than trebled in 12 years, from about Tk. 3,000 crore in 2001-02 to over Tk. 12,686 crore in the FY 2012-13, representing 6.6% of the total government expenditure. Thanks to a steady rise of our GDP, we are able to spend more every year. This year for example, we spent about \$1.5 billion for defence, which is 1.5% of our GDP.

Critics will, however, question the rationale behind spending even this amount at a time when we remain one of the poorest countries of the world. Our per capita income is half of India's and 1/3rd of Sri Lanka's. Our investment in education and health, two key social sectors, remain below other Saarc countries. Despite a fall in the percentage of people below the poverty line, the number of absolute poor people in Bangladesh is staggering. While realists will point out that our defence expenditures as a percentage of GDP remains the lowest in the Saarc region, critics will point out that unlike India and Pakistan, who have a raging dispute over

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Kashmir, and India's disputed border with China, Bangladesh's land border with its neighbours, India and Myanmar, is demarcated and well-defined. Our exclusive economic zone (EEZ) with Myanmar and India were disputed, but all parties decided to refer the dispute to arbitration court. Recent arbitration and mutual acceptance of the judgment on EEZ by both Myanmar and Bangladesh has set a tone where EEZ boundary with India could also be demarcated to the mutual satisfaction of both parties.

We do have unresolved border issues with India such as enclaves and adverse possessed land, but those can only be resolved across the negotiating table. Our most serious security issue with India is regarding sharing of waters of common rivers. This issue too has no military solution. Having said that there is no imminent and clear external military threat to Bangladesh, there are a number of internal, regional and international security threats that would require a robust military posture for the country.

Bangladesh's geo-strategic location is such that it acts as a land link to the countries of South East Asia with the rest of South Asia. Its strategic importance has further enhanced due to the emergence of two Asian giants, China and India, who are our close neighbours.

In fact, Bangladesh is positioned as a natural conduit for trade, commerce and communication between these two big powers.

Although growing economic relations between India and China has pushed their border dispute into the background, the future of their relationship remains uncertain. In case Indo-China relations become strained, it would compel Bangladesh to keep tight-rope walking between the two rivals. Growing Chinese interest in the Bay of Bengal and the Indian Ocean is viewed with concern by India and the US, as well as littoral countries such as Malaysia, Singapore or Indonesia. Myanmar's possible transition to democracy and its warming up with India and the West will worry the Chinese regime.

We cannot remain a silent bystander to these momentous changes happening at our doorstep. While we firmly strive to maintain a peaceful neighbourhood, we must be able to defend peace, if required. A robust military capability is, therefore, necessary. Along with geostrategic necessity, we have a number of simmering and active insurgencies in our neighbourhood, which in the past have often spilled over to Bangladesh.

Taking advantage of our poor state of governance, foreign insurgents have used Bangladeshi territory as a sanctuary or a conduit for illegal arms trans-shipment. We cannot allow these things to happen again.

Bangladesh, along with India and Pakistan, had been afflicted with Islamic extremist activities. Strong police action has been able to suppress these extremist networks in the country, but we need to remain vigilant. Similarly, the so-called Maoist guerilla movement in Nepal and much of Northern and Central India has a spillover effect on Bangladesh. All these development might call for military response in future. It is important, therefore, to develop a military force that can effectively meet any threat at present and in future.

It, therefore, follows that we make the most effective use of defence resources. Although the nitty-gritty of defence preparedness and force structuring is a purely military affair, its broad strategy, aim and objective need to be participatory, in which people must have a say. There is also a need for civilian supervision, such as Parliamentary oversight and greater access to media, to ensure that the resources are not ill-spent or pilfered due to corruption or inefficiency. Military purchases everywhere breed corruption because of the cloak of secrecy and lack of transparency involved in the whole process. The rather long military shopping list that the finance minister unveiled in his budget speech will surely demand careful monitoring and external financial scrutiny.

The writer is a retired Air Commodore.