Is national debt really a burden?

ABDULLAH SHIBLI

FINANCE Minister A.M.A. Muhith presented the national budget on June 6. The budget deficit was pegged at Tk.550.32 billion, which is 4.6% of the GDP, from which a modest down payment for the Padma Bridge will be expended. Given the size of deficit, it is an opportune time to highlight the role of national debt and its economic justification. How much can a country borrow? Can a country's debt level become a burden on its populace?

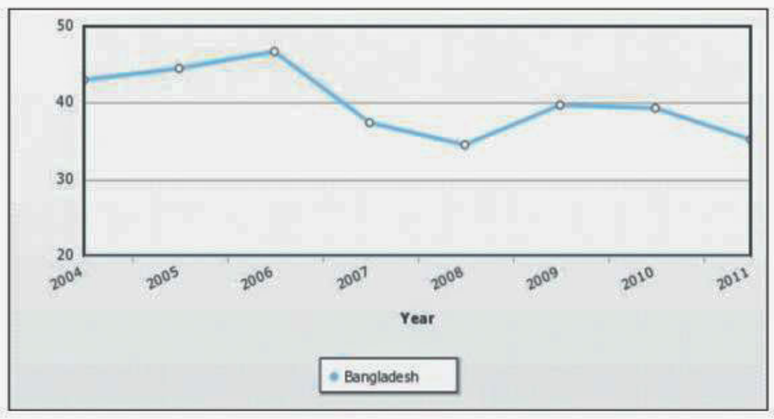
The Economist magazine's "Global Debt Clock" web presence has an interactive site which offers up-to-date figures on the public debt of each country of the globe. Topping the list is the largest economy of the globe, viz., the USA, which has a national debt of over $16 trillion, followed by UK, France and Germany. However, many factors determine the weight of a country's debt burden: GDP size, its foreign assets, and the internal to external ratio. For example, a quick review of the data on *The Economist* site also reveals that Greeks owe $33,000 per capita, which is less than the $38,000 average Americans owe, but it is the former which is the sickest country in the world. Bangladesh has, over the last few years, maintained its place in the safety zone, whether we consider the national debt or external debt (see chart 1). However, it is a foregone conclusion that with a project of the magnitude as the Padma Bridge, should it be financed from domestic sources, the debt burden could eventually reach over 50% of GDP.

The national debt of any country is a major concern for policy makers. While borrowing to pay for projects, particularly the ones that governments like to showcase, are an easy and, for some politicians, a cheap way to build bridges, airports, and national monuments, they have long-term implications. Loans have to be paid back, even when the borrowing happens from domestic sources.

Deficit financing or debt leveraging has always been a controversial tool in the arsenal of development finance. Since my high school days in Bangladesh, we've learned that the government has the ability to print money to pay for development projects. Unfortunately, we were also aware that our government, during the Pakistan era, as well as after our independence, in the Five Year Plans and ADP, undertook reconstruction and development projects, but also many pork and barrel or otherwise totally useless projects (everybody knows the "10% bridge" joke or heard about the "bridge to nowhere!") by printing money and then burdening the future generation with the responsibility to repay the public loans.

The argument often used was that the real cost of deficit financing was less than the nominal, since inflation and time discounts eased the financial burden on the nation.

Chart 1: Bangladesh Public Debt (as % of GDP)



Plus, the argument goes, if the money was invested judiciously, as it was supposed to be done, the national pie would grow and the extra revenue would come out of a larger GDP. However, in a pioneering paper in the *Pakistan Economic Journal*, Prof. Akhlaqur Rahman sounded the alarm bell many years ago and argued that the practice of deficit financing, while justifiable, can become a vicious tool in the hands of a government not accountable to the people and if used indiscriminately.

However, public and expert opinions have changed since then. Borrowing is no longer considered to be a sign of bad governance and often advocated to act as a counter-cyclical force during a recession. While borrowing (both domestic and external) has been at the receiving end of the public's ire for short periods of time, particularly during the external debt crisis that erupted in Latin America in the 1980s, and the recent turmoil in many Eurozone countries (Greece, Italy, and Spain, among others) which faced high domestic and foreign debt, the recent economic slowdown has forced the hands of many governments particularly in the face of the reluctance of many economists to support higher taxes and/or quantitative easing (QE) to stimulate the economy even when trying to combat a sustained downturn.

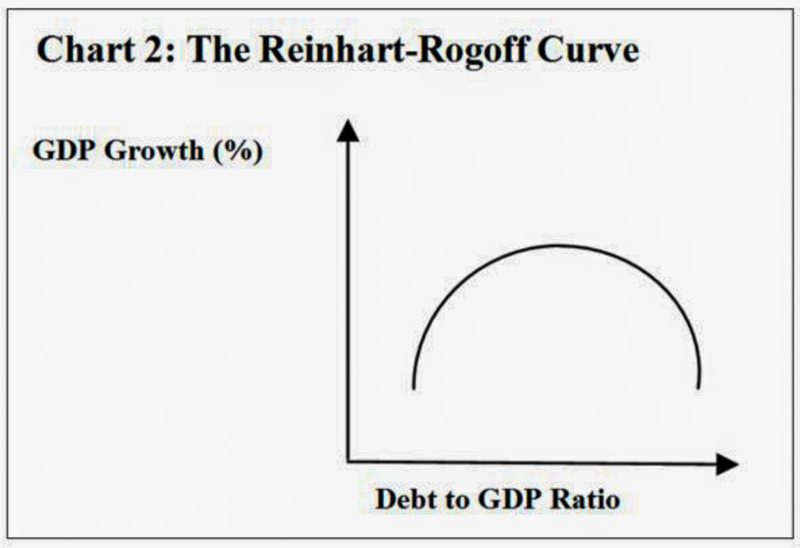
Now let me finish the paper with a quick snapshot of the most recent firefight in the public arena and among economists, which has resurrected the question: Is public debt bad for the economy? The answer to this question has implications for both developing and developed countries. Let me focus on one narrow aspect of controversy. As I mention in the opening paragraphs, one of the key metrics used and understood by all, both specialists and talk-show hosts, is the debt to GDP ratio. For many countries, the ratio has been going up and unlike the proverb "what goes up must come down," this statistic seems to have defied the law of gravity. For the majority of countries for which data is available, the ratio has consistently gone up (Bangladesh being an exception). And the ratio varies across countries too. For example, Greece has a ratio of 190% whereas USA is hovering around 90%, and expected to reach a level of 84% steady state in the next few years.

The controversy over high debt ratios has recently become a major headline catcher due to two factors:

- The recent global recession has resulted in renewed attention to the role of the government in preventing economic decline and greater unemployment. Should the government cut taxes, increase spending, or both? Also what is the role of fiscal vs. monetary policy?
- If the government does increase its spending how does it finance the so-called "stimulus vector"? By increasing debt? If so, can the government spending also act as a drag on the economy?

The public debate in Asia, Europe, and the USA has in the last three years been determined by a paper published in 2010 by two Harvard economists, Carmen Reinhart and Kenneth Rogoff, who purportedly showed that greater debt has a dragging effect on the economy (see Chart 2). The so-called debt effect has received so much attention that many politicians have used it as a cudgel to overpower any contrarian views, and to argue against large government and economic stimulus policies (for example, Republicans in the USA and Conservatives in the UK).

Chart 2: The Reinhart-Rogoff Curve



More recently, many have identified various flaws in the analytical framework utilised by Reinhart and Rogoff. While the jury is still out on the effect of very high levels of national debt, as shown by the Greek experience, nonetheless for most countries deficit financing still remains an option to combat recessions and temporary "cash-flow" problems.

The writer lives and works in Boston, USA.

The future of education

SHAMIMA KHAN

THE current education system is becoming outdated. However, with the arrival of the internet, things have changed a lot in the past two decades. Population increase, resources scarcities and the abundance of readily available information are creating challenges we never faced. For example, kids these days are hooked to social networks like Facebook, Youtube, Twitter etc. While these tools are distracting, they can also be great sources of knowledge when used properly. In the age of globalisation, our education system needs to teach students how to use these new tools in a productive way.

STAR

Due to technological advances, traditional ways of doing business is also changing. This means students need to be creative and better at problem solving. In the past, a degree guaranteed a job, but that is no longer the case. Now young people with a degree are going home to play video games, because a job that previously needed a BA now needs an MA. With rising tuition and student loans, inflation in academic degrees and high unemployment rate, researchers are foreseeing a major disruption in the education sector.

The future will be full of new challenges but our current education system is not so effective at creating critical problem solvers. Creativity expert, Sir Ken Robinson says it is because "our mind has been mined the way we strip-mine the earth for a particular commodity." He suggests we should rather "wisely cultivate creativity and acknowledge the various types of intelligence." He believes we need to find a better way to nurture the various types of intelligence. For instance, would Shakespeare be famous if his school and parents forced him to write like normal people?

We are all good at different things and we need an education that helps us become better at qualities that come to us naturally. Children these days suffer from disorders like Attention Deficiency Hyperactivity Disorder (ADHD) and autism. While medicine is a common solution, children need to be taught through aesthetics, not with anesthetics. Dr. Sugata Mitra, an education researcher, did an experiment called the Hole in the Wall and found out children are born with a love for learning. Neuroscience shows that fear stops the learning centres in the brain. The system of punishment and examination takes the focus towards grades and hampers our learning centers.

Many predict education will be replaced by customised learning. World class university curriculum is available for free in the form of Massive Open Online Courses (MOOC) which are accessible to anyone with an internet connection. Instead of sitting in a classroom, there are plenty of sites which provide learning materials for anyone interested. Sites like Coursera.com provide college courses and even certificates from top universities. KhanAcademy.com, founded by Salman Khan, is another popular site that has videos to help school students learn about subjects. Skilledup.com is also a great site that helps people gain and improve job skills. These online resources are becoming popular for their convenience and affordability.

Devices like laptops have already made their way into the classroom. Anyone from anywhere can learn from the Cloud, where the website databases are stored. This means technology can be used to make education fun and accessible for all. Considering population growth, in the next 50 years most of the world youth will be in the slums of developing countries like Bangladesh. Underprivileged children can learn from the internet and increase the national literacy level. Moreover, this method of learning provides educators with lots of data to find out the best method of teaching. While technology can reduce pressure on teachers, the role of the teacher will still be important. Teachers will no longer be just educators but will have to be motivators.

Technology is making the future very unpredictable. Leadership will no longer be about giving and following orders, but thinking critically and serving humanity. Schools in the future will be located in the Cloud, and lessons will be taught by teachers with the help of technology. Therefore, learning will be customised to meet individual student's needs. Political leaders and education reformists need to find a way for educators to best care for today's youth because the youth will face hard choices due to lack of resources.

To quote Albert Einstein: "Everybody is a genius. But, if you judge a fish by its ability to climb a tree, it'll spend its whole life believing that it is stupid." A fish is good at swimming not at climbing trees. Just like a fish, we are good at different things. We need an education system that will help us find out what we are good at and help us become great at it. Technology should not distract students from learning, instead help them enjoy learning.

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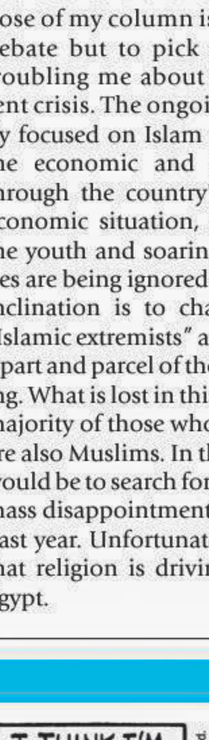
The hieroglyphs of democracy

SHIFTING IMAGES



MILIA ALI

THE Arab Spring and its aftermath in Egypt, culminating in the military takeover and ousting of President Mohammad Morsi, have generated a series of opposing reactions -- hope, disappointment, the joy of victory, the anger of defeat and jubilation and despair. But the verdict is still not out. Experts are busy debating whether Egypt's recent military action was a people's movement or a coup, or may be a revolt orchestrated by the pro-Mubarak forces and/or some external powers.

We may never know the real story. Meanwhile, opinions are highly polarised. The democratically inclined argue fervently that an elected government, even if dysfunctional, should not be changed by military intervention. Supporters of the army action make the counter argument that, if democracy is about people's choice, than the voices of the 20 million protesters who gathered at Cairo's Tahrir Square and demanded that Morsi be ousted need to be heard.

The fact is that today Egypt is at the crossroads of its political future. Is the country heading toward a civil war or a "devised top-down" democratic solution? One can only speculate. The purpose of my column is not to add to this speculative debate but to pick up an issue which has been troubling me about the discourse on Egypt's current crisis. The ongoing media discussion is primarily focused on Islam and "Islamists" rather than on the economic and social undercurrents running through the country's political upheaval. The dire economic situation, high unemployment amongst the youth and soaring prices of essential commodities are being ignored or understated by analysts. The inclination is to characterise Morsi supporters as "Islamic extremists" and not as a political force that is a part and parcel of the changes that Egypt is undergoing. What is lost in this stereotyping is the fact that the majority of those who are asking Morsi to step down are also Muslims. In this context the logical approach would be to search for other legitimate reasons for the mass disappointment in Morsi's governance over the past year. Unfortunately, the predilection is to claim that religion is driving the entire political crisis in Egypt.

What triggered my decision to write on the Egyptian situation (since I usually avoid subjects related to politics) was an article in the *New York Times* by columnist David Brooks. In his op-ed dated July 4, Mr. Brooks blames Egypt's democratic crisis on the "Islamists", who, according to him, "lack the mental equipment to govern" and "wind up subverting democracy." Furthermore, he shockingly asserts that Egypt's Muslim Brotherhood government failed "because incompetence is built into the intellectual DNA of radical Islam. We've seen that in Algeria, Iran, Palestine and Egypt…" A pertinent question for Mr. Brooks may be: Who exactly are these "Islamists" with "incompetent intellectual DNA"? Does he mean the voting population of the countries that he has identified as failed democracies? He does not provide a suitable answer. But his unsubstantiated sweeping conclusion smacks of cultural and racial bias! It's an attempt to simplify a highly complex, multi-layered problem, by claiming that the onus rests on the tenets of Islam which Mr. Brooks believes are antithetical to the principles of democracy. This kind of reasoning is not only bigoted but also flawed.

It does not take great intellectual ability to recognise that the majority of the 1.6 billion Muslims in this world are like any other religious sect. They come in all colours of the spectrum. They are liberal, conservative, peace loving, violent, brainy, stupid … and most believe in a fair, just, equitable and democratic world since it would provide them with more security and stability!

David Brooks may have got one thing right: that the Morsi government has "subverted judicial review, cracked down on civil society, arrested opposition activists, perverted the constitution-writing process." But then, isn't this the path that the current military establishment in Egypt is also adopting? The same institution that Mr. Brooks believes is the panacea for solving Egypt's "Islamisation" problem?

As we watch with bated breath the ongoing Egyptian experiment, it may be useful to take a step back and reflect. Is Egypt's problem with democracy rooted in Islam and the "Islamists"? Or is there a need for a transition to help people recalibrate their mindset to a culture of inclusion and tolerance? After all, this change in attitude is the foundation of any true democracy.

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ACROSS
1 Homer's cry
4 Commotion
7 Couturier Bill
12 — out a living
13 America's uncle
14 They're usually covered in white
15 Auto
16 Cartoon canary
18 Suitable
19 Point of view
20 Effervescence
22 Squirrel's home
23 Mediocre
27 Samovar
29 Sister of Venus
31 Kin of "Abracadabra!"
34 Crucifixes
35 Sufficient
37 "Brady Bunch" girl
38 Cash-drawer compartment
39 Swelled head
41 Marvel Comics group
45 Clutch
47 Anger
48 16-Across' pursuer
52 Legislation
53 Praiseful rendition
54 Clean Air Act org.
55 Consumed
56 "Excavating for —"
57 Bashful
58 Neither partner

DOWN
1 Starbucks selection
2 Giraffe's cousin
3 Avis competitor
4 "The Thin Man" pooch
5 Suddenly occur to
6 Last letter
7 Information unit
8 Myrna of Hollywood
9 Matterhorn, e.g.
10 Tackle moguls
11 Away from NNW
17 Reindeer kin
21 Boer fighters
23 Cheer-ful part of NYC?
24 Zodiac feline
25 Moreover
26 Owns
28 Tatter
30 Detergent brand
31 Dog's doc
32 Individual
33 Tiny particle
36 Towel word
37 Andrew Lloyd Webber title role
40 Microsoft bigwig
42 Where to see "The Last Supper"
43 Poets' Muse
44 More recent
45 Hackman or Wilder
46 Beseech
48 Masseur's workplace
49 Sweet potato
50 Mainlander's memento
51 U-Haul rental

Solution time: 25 mins.

H	E	M	■	A	B	E	L	■	V	A	S	T
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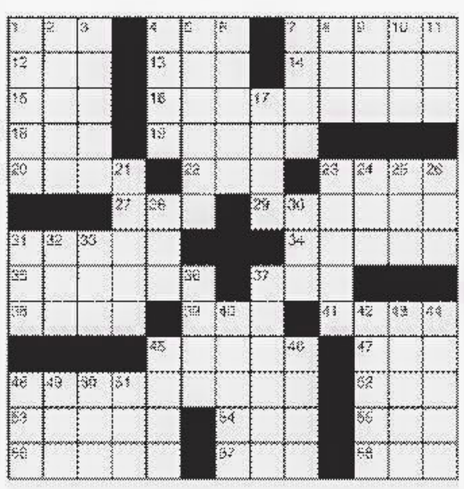
M	A	C	K	I	N	A	W	■	E	T	A	S
■	■	K	E	G	■	U	L	S	T	E	R	S
P	H	E	N	O	M	■	Y	O	N	■	■	■
A	I	R	■	S	O	Y	■	T	A	M	P	A
I	D	E	S	■	E	A	T	■	M	A	R	C
R	E	L	I	C	■	P	A	D	■	C	O	N
■	■	■	T	O	Y	■	D	E	F	A	M	E
T	O	D	D	L	E	R	■	C	U	R	■	■
O	L	I	O	■	M	A	C	A	R	O	N	I
B	L	O	W	■	E	G	A	D	■	O	A	K
Y	A	R	N	■	N	A	P	E	■	N	Y	E

Yesterday's answer 6-7



CRYPTOQUIP

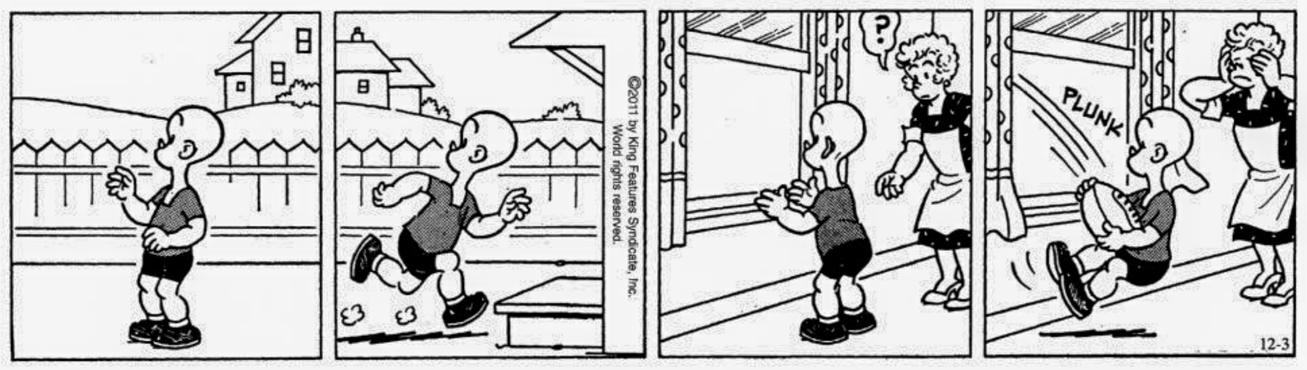
FTOLKMT NJRMT MRXYM LGT LFRKN MRIN EGHXDM, WHYJN ARK VKN NJTW KXETG NJT OLNTYRGA RI VRV WKMHO?

Yesterday's Cryptoquip: SOMEBODY SWAYING SLOWLY SMACK-DAB NEXT TO A MARX BROTHER MIGHT BE DANCING CHEEK-TO-CHICO.

Today's Cryptoquip Clue: V equals P

BEETLE BAILY by Mort Walker

HENRY by Don Tranchte



QUOTABLE *Quotes*

"Without freedom of thought there can be no such thing as wisdom and no such thing as public liberty without freedom of speech."

Benjamin Franklin