When principles of democracy conflict

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THE national political situation currently remains at an impasse. The opposition maintains that the general election should be held under a caretaker government, while the government maintains that this will not happen. The High Court has decided that the caretaker government system is unconstitutional. This impasse is at one level a clash of interests; each side favours the situation that is more likely to give it power. However, it is also possible to see the disagreement as a conflict of principles, and it is important to identify and explore these principles.

The principle underlying the caretaker system is the importance of free and fair elections. The government has said that even without a caretaker government, the elections will be run by the Election Commission. But this will be overseen by the government, and elections held under it are unlikely to be as neutral as they would be if run by a caretaker system. Under that system, the government steps down from power and an interim body takes over the running of the election. Elections under a caretaker system are more likely to be free and fair.

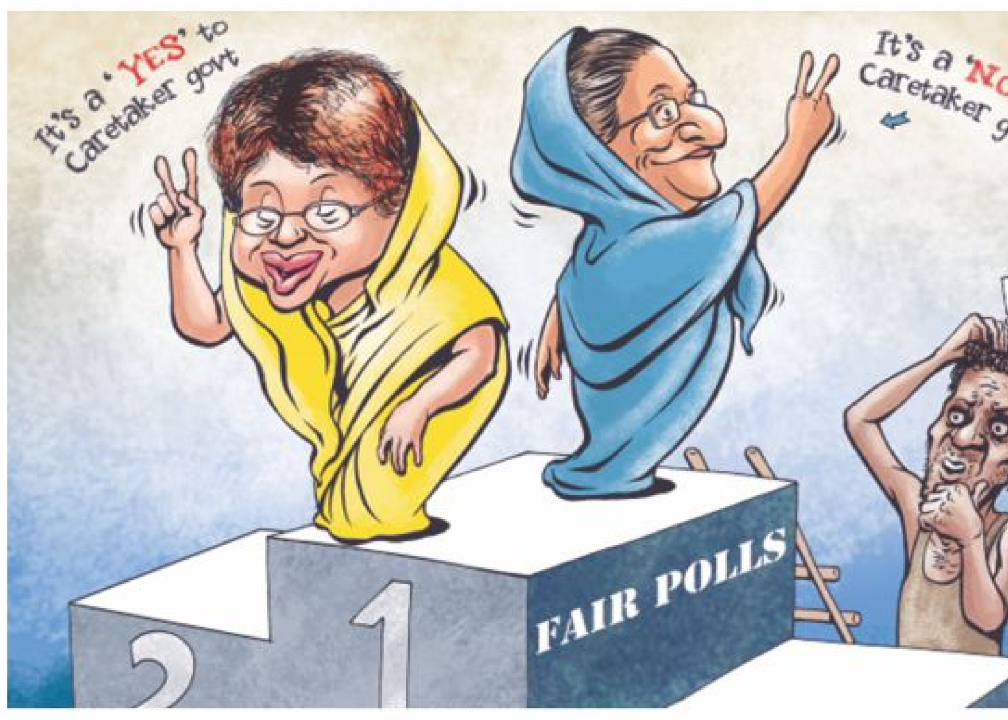
What is the principle underlying the resistance to the caretaker system? The Court's reasoning was that the constitution rules out having an unelected government; the caretaker government would be appointed rather than elected, and so would be unconstitutional. So the underlying concern here can be called the principle of 'no unelected government.'

The principle of free and fair elections favours the caretaker system while the principle of no unelected government favours the government staying in power during the election period. Which of the two principles is more important? Both are fundamentally democratic and it is deeply difficult to determine which should prevail. Perhaps it is just a matter of political outlook and simply choosing which one you like the best. However, we can try to decide between them by examining the deeper values of democracy. If we examine what the meaning and purpose of democracy is, we may have some guidance on which principle should prevail.

The history of political thought and experience furnishes us with two main rationales for democracy. The first is that democracy is the best political system for protecting and promoting the interests of the people. Non-democracies do not do a good job of this. Benevolent dictatorship is possible in theory, but seldom works in practice. Venice in the fourteenth century is sometimes cited as an example of undemocratic rule which actually did promote the interests of all the people, but against this are all the examples of dictatorships throughout history and in the present which have been brutal and corrupt.

Democracy protects the interests of the people in several ways. When the people have a say in political rule, information about their interests is fed through to decision-makers. Also, the people are able to veto any regimes that are acting against their interests. Amartya Sen has argued, for example, that famines are less likely to occur in democracies because popular opinion forces government, through the threat of the ballot box, to respond promptly to such emergencies.

Can this rationale for democracy -- protection of the people's interests -- help us adjudicate between the two conflicting principles? Free and fair elections are essential for protecting the interests of the people. Without free and fair elections, the



parliament that is formed will not be representative of the people. Instead, it will be skewed towards one sector of society. If so, then the parliamentary mechanism will not adequately respond to information about people's interests, or to public opinion which expresses those interests.

Consider the other principle. While there is the danger that an unelected caretaker government could ignore the people's interests, the period of that system will only be short, so there will only be a brief interruption. Moreover, it is not as though the unelected caretaker government would be completely free of the control of the current democratically elected government. Any temptation it may have towards dictatorship (which is very unlikely) can be reined in. So promoting the interests of the people favours the principle of free and fair elections over the principle of no unelected government (at least, assuming the unelected government is temporary and limited).

Protecting and promoting the interests of the people is not the only function or purpose of democracy. A second main rationale for democracy is the intrinsic value of collective self-rule. Even if the first rationale does not hold and democracy does not protect and promote the people's interest (say because the people are poor judges of their own interests) there is something to be valued about the people ruling themselves. It is in the nature of freedom and autonomy that we be free to make our own decisions even if sometimes those decisions are mistaken or misguided. Democracy enables people to exercise this collective self-rule. They decide for themselves what laws and policies they live under, rather than having laws and policies imposed upon them by somebody else.

This was the contention of Jean-Jacques Rousseau in his great political work The Social Contract (1762), a work that helped inspire the French Revolution. Under democracy, he argued, people live according to laws that derive from the general will of all, rather than from a monarch, an elite group, or a foreign ruler. By doing so, each person achieves "moral liberty which alone makes him truly master of himself; for the mere impulse of appetite is slavery, while obedience to a law we prescribe to ourselves is liberty." It is liberty in the sense of collective self-rule, which is possible only under democracy.

Let us see now what the value of collective self-rule can tell us about the clash of principles so far discussed. Free and fair elections are essential for a nation to achieve collective self-rule. If elections are biased, then parliament will not represent the general will of the people. Instead of the people as a whole giving rules to themselves, one sector of society would be unfairly imposing its own will on the rest.

An unelected caretaker government would also mean a suspension of the general will, but again it would be for a short-term period only. Moreover, the temporary suspension is necessary for collective self-rule to prevail in the long run. That goal requires free and fair elections and if the only way of achieving them is to have a temporary suspension of the elected government, then that is a price worth paying.

Hence, both rationales for democracy point us to the same conclusion. The principle of no unelected government should be subordinate to the principle of free and fair elections.

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Saving the RMG sector

Tariq Sadat

THE ready-made garments (RMG) sector in Bangladesh is at a crossroads. The long term sustainability of the sector can be called into question. It has now become extremely important to take immediate measures to safeguard the sector that makes a most vital contribution to the economy of Bangladesh.

There is a need to overhaul the entire industry, its structure as well as the way it functions. How can this be achieved? Well, here is one way.

In industrialised economies, large companies listed on the stock market encourage employees to purchase company shares through offering employee discounts on share purchase. The employees are free to sell off their shares almost anytime. So the employees are also small owners of the large companies they work for.

The ownership of RMG companies can be diluted to a small extent (10-20% or more) so that the RMG workers can collectively seek secondary ownership of their companies through contributing a small fraction of their wages to build what can be called secondary owner's equity. The companies need not be floated on the stock market. Instead of handing out to workers the total sum of the agreed wage, which is the subject of the current dispute in the RMG sector, a small fraction of the wage, say, Tk.100-200, or more, each month, can be held by the company as secondary owner's equity. This is expected to give the primary company owners access to sufficient funds to improve the safety as well as working conditions of the compa-

AMRAN HOSSAIN

nies. An agreed fraction of the company's annual profit will be transferred to the secondary owner's equity. So at the end of the year, each worker's equity value will not only accumulate but also grow larger through addition of annual profit shares. Also the workers will be able to legally withdraw or access their equity contributions anytime, similar to a share sell-off.

The above arrangement can leave room for negotiation in relation to determining the minimum wage of RMG workers. However, a few questions come to mind. Will the arrangement work? Will it be transparent? Is secondary ownership sufficient to address workers' rights or safety concerns? Will the primary owners agree to implement such an arrangement?

Instead of significantly raising the ceiling of minimum salary handouts, the workers can be encouraged to leave the money with the company as equity investments, and can be told that they can access the money anytime they need, but the longer they leave the money with the company, the higher it will grow as it accumulates over time and as the profit share accumulates as well. With this arrangement, the primary company owners will be able to use the equity funds that otherwise would have gone into the workers' hands.

Transparency can be increased through determining and negotiating each year's profit share that will add to the secondary owner's equity. It is not a provident fund. The equity stays with the company and can be used for the company's development and growth. As secondary equity holders, the workers can negotiate with the primary owners regarding the use of the equity funds. Such uses may include employee welfare funding, workplace injury cover etc., or even expansion of the company that will facilitate growth of business as well as employment.

An arrangement like the above can benefit both the owners of factories and the workers, and can safeguard the RMG sector from the current turmoil if implemented through appropriate policy dialogues.

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Open new banks or go for merger?

Md. Mizanur Rahman

IT might be difficult to say whether it is the time to open new seven banks in the Bangladeshi banking sector or go for merger. Before answering the said question let us look at the challenges facing the banking industry, and the benefits of merger to see if it can overcome the challenges.

The banking industry has grown manifold over the years, making double-digit profit percentages, sustaining growth and surviving with competition while providing attractive returns to shareholders. However, the greed for more without appropriate platform and fundamentals brings its own challenges and questions in people's minds. The image of this sector has also been tarnished by several stories released in the media.

Usually, competition in any sector brings positive development but excessive competition also encourages malpractice. In comparison to the size of the Bangladesh economy, 53 banks are definitely too many. It is obvious that a significant percentage of people in the country are still un-banked so, to bring them into the banking channel, banking services have to be expanded. But this could have been done by increasing the number of branches of existing banks rather than opening new banks. Because new banks start their services in the urban areas, branches of all banks are concentrated in some particular areas and compete with each other. So, the rural areas do not receive their services. There is also competition from non-bank financial institutions (NBFI) and micro finance institutions (MFI).

Under this unhealthy competitive environment regulators and customers are also pitted one against the other, making the situation extremely difficult. Because of this unhealthy competition, interest rate of deposit goes up sharply and, consequently, investment interest rate also goes up, which resulted in reduction of investment in the country.

This unhealthy competition in the banking industry hit the country's capital market as the shortage of equity and deposit forces bank owners to raise funds from the capital market. In addition, this situation can force them to make their position risky through overexposure to the volatile capital market through proprietary trading and position taking in order to maintain profitability.

Shortage of efficient manpower is also a key problem in the banking sector. Because, academic institutions fail to supply enough quality banking professionals, people having no academic background in banking or finance are holding the key chairs in the leading banks, especially in the state-run banks. The government's policies and the emerging economic challenges have caused troubles for the sector since we don't have efficient people to face the problems.

This shortage of skilled human resources also hampers creation and launching of new innovative products, which results in reduced efficiency and productivity of the banks. A report of 2012 on financial ability of the banking sector shows that banks earn only 60 paisa against Tk.100 taka assets, while it was Tk.1.30 last year. On the other hand, income was Tk.7.80 against Tk.100 taka equity, which was Tk.14.30 taka last year. In 2012, the net profit of the banking sector was only Tk.4,466 crore while it was Tk.9,121 crore in 2011. In June 2013, the profit situation is worse than any recent past year. Most banks' share prices in the stock market are close to book value, and prices of at least three of them have even gone below the book value.

The recent scams in the state-run banks and also some private banks have exposed the sector to risk. But the number of banks is increasing without having enough professionals to manage the sector efficiently.

Therefore, the question is whether this was the time to open 7 more new banks, or to merge some banks.

Bank merger means uniting two banks to form a new bank. After the merger, the separately owned banks become jointly owned and obtain a new single identity. When two banks merge, stocks of both are surrendered and new stocks in the name of the new bank are issued.

There are many reasons behind mergers and takeovers. For instance, a particular bank is very good at administration while some other bank is good at marketing strategies or in operations. If the expertise of both are amalgamated, it produces synergy. A new bank is formed in the process, which has a potential much higher and superior to what the individual companies previously had.

The specific gains in mergers are the following:

Mergers generate greater value: It is expected that the shareholder value of a bank after merger would be greater than the sum of the shareholder values of the parent banks. Mergers generally succeed in generating cost efficiency through the implementation of economies of scale.

Mergers generate tax gains: Merger also leads to tax gains and can even lead to revenue enhancement through market share gain. Companies go for mergers because the joint bank will be able to generate more value than the separate banks. When a bank buys out another, it expects that the newly generated shareholder value will be higher than the value of the sum of the shares of the two separate banks.

Mergers can rescue the banks in tough times: Merger can prove to be really beneficial to the banks when they are weathering the tough times. If a bank, which has a strong market presence, buys out the weak firm, then a more competitive and cost efficient bank can be generated. Here, the target bank benefits as it gets out of the difficult situation and after being acquired by the large firm, the joint bank accumulates larger market share.

Gaining cost efficiency: A merger is able to create economies of scale which in turn generates cost efficiency. As the two firms form a new and bigger bank, the production is done on a much larger scale, and when the output production increases there are strong chances that the cost of production per unit of output is reduced.

Merger cut down expenses and increase revenues. It happens when a bank is not self-sufficient enough to operate on its own. Hindrances may be in the form of insufficient investment capacity, or excessive competition due to which the bank is not able to keep pace with other companies. Under such circumstances, the subsidiaries may merge with the parent bank for better output.

Mergers may seem to be beneficial, resulting in the amalgamation of two conglomerates. They have been found to lead to cost cuts and increased revenues.

However, merger failures are not uncommon. These failures may harm the companies, tarnish their credibility in the market, and ruin the confidence of their shareholders. Studies reveal that significant percentages of mergers prove to be disappointing. The reason is that their value in the stock market declines. Although it is believed that when two companies merge the combined output will increase the productivity of the merged companies. However, this increase in productivity does not always materialise.

There are several reasons for merger failure. Some of the prominent causes are summarised below:

If a merger is planned depending on the (bullish) conditions prevailing in the stock market, it may be risky.

There are times when a merger may be effected for the purpose of seeking glory, rather than viewing it as a corporate strategy to fulfill the needs of the bank. Regardless of the organisational goal, these top level executives are more interested in satisfying their "executive ego."

In addition to the above, failure may also occur if a merger takes place as a defensive measure to neutralise the adverse effects of globalisation and a dynamic corporate environment.

Failures may result if the two unifying banks embrace different "corporate cultures."

Still there are many examples of mergers that have boosted the performance of a bank and addressed the well-being of its shareholders. The primary issue to focus on is how realistic the goals of the prospective merger are.

Although studies show that not all mergers were successful, policy makers and regulators should think whether it is time for opening new banks in Bangladesh or go for merger. But to me, it is obvious that the Bangladeshi banking sector is overcrowded, which results in unhealthy competition.

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By THOMAS JOSEPH

ACROSS

1 Fence part
5 Group of players
9 Player
11 Hand costs
13 Blender setting
14 Carried
15 Inventor Whitney
16 Stupid
18 Gains in abundance
20 Tease
21 Stringency
22 X on a letter
23 Dijon denial
24 Shark symbol
25 Periodicals, for short
27 Forehead cover
29 One-million link
30 Alfalfa's group
32 Tap, as savings
34 Arthur on TV
35 Love, to Luigi
36 Steak choice
38 Writer Sontag
39 Stopped completely
40 Dispatch
41 Really impresses

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1 Copier need
2 Eye-related
3 Model activity
4 Sandal sight
5 Plane part
6 Shortly, in poems
7 Affecting adversely
8 Court action
10 Logic
12 Likely winners
17 Polite address
19 They may be inflated
22 Throne occupant
24 Remote
25 He had the golden touch
26 Hostility
27 Save
28 Allergy symptom
30 Without break
31 Airport areas
33 Hormuz's nation
37 Lyricist Gershwin

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Yesterday's answer

9-13

A XYDLBAAXR
is LONGFELLOW

One letter stands for another. In this sample, A is used for the three L's, X for the two O's etc. Single letters, apostrophes, the length and formation of the words are all hints. Each day the code letters are different.

9-13 CRYPTOQUOTE

M Q R M A V T S U R G O M Q
P T J R A Q R A V R P O P G Q K M
M V C V S R M G R R F J Q V F R
S V V M Q P . — N R F N R P R Z

Yesterday's Cryptoquote: SHE GOT HER LOOKS FROM HER FATHER. HE'S A PLASTIC SURGEON. -- GROUCHO MARX

BEETLE BAILEY by Mort Walker

HENRY by Don Tranchte

QUOTABLE *Quotes*

"If money is your hope for independence you will never have it. The only real security that a man will have in this world is a reserve of knowledge, experience, and ability."

Henry Ford