



ILLUSTRATION: BIPLOB CHAKROBORTY

A proportional election as a way out of the impasse



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Bangladesh seems to have reached an impasse regarding the upcoming general election. The ruling party wants it under the current government, while the opposition wants it under a non-partisan caretaker government. The possibility of an agreement looks remote. Instead, the country seems to be sliding towards another phase of violent political struggle.

Switching from the current *majoritarian* election system to the *proportional* election system can provide a way out of this impasse. The majoritarian system is inherently prone to violent fluctuations in election results, leading to marginalisation of opposing political parties. By contrast, the proportional system can ensure the robust presence of contending political parties in parliament and thus allay the fear of becoming marginalised.

To see how the majoritarian system leads to instability, consider the following hypothetical example. Suppose there are only two political parties, A and B, having a popularity of 51 and 49 percent, respectively, among the electorate. Suppose that these popularity ratings are uniform across the country and hence apply for all 300 parliamentary seats. Under these conditions, if the election is held under the majoritarian system, party A will win 300 seats while party B will win zero seats. Now suppose that, by the next election year, the popularity of party A has declined to 49 percent and that of party B has increased to 51 percent, and that these ratings are uniform across the country. Now, under the majoritarian system, party B will win 300 seats and party A will have no seat at all! Thus, we see how, under the majoritarian system, the change in popularity by just two percentage points leads to a radical fluctuation in the election results.

The proportional election system helps prevent such violent fluctuations and unjust outcomes. Under the proportional system, the election is held on a countrywide basis and parliamentary seats are allocated to the parties in accordance to the proportion of vote they get in the entire country. Under this system, both party A and B would announce their lists of 300 candidates in the order of precedence. Under the proportional system, the election is held on a countrywide basis and parliamentary seats are allocated to the parties in accordance to the proportion of vote they get in the entire country. Under this system, both party A and B would announce their lists of 300 candidates in the order of precedence. Under the proportional system, the election is held on a countrywide basis and parliamentary seats are allocated to the parties in accordance to the proportion of vote they get in the entire country. Under this system, both party A and B would announce their lists of 300 candidates in the order of precedence.

system can thereby prevent violent fluctuations in election results. It is also more just.

As a result of the above property, the proportional election promotes a culture of political tolerance, because contending parties know that all of them will remain in parliament in accordance to their popularity and no one will get marginalised by the mechanics of the election system. The proportional system also allows all votes to get reflected in the parliament's composition. By contrast, under the majoritarian system, under the above example, 49 percent of the vote do not have any reflection in the composition of the parliament.

It is because of these superior qualities of the proportional system that almost all developed countries follow it. Of the original 22 countries belonging to the Organisation of Economic Co-operation and Development (OECD), 19 follow

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the proportional system. More instructively, of the 10 East European countries and former Soviet republics, which switched to democracy in the 1990s, all adopted the proportional system. These countries were not constrained by historical legacy and had the option to choose between the majoritarian and proportional systems. Worldwide, about 65 percent of the countries follow the proportional system.

It is mostly the United Kingdom and its former colonies that follow the majoritarian system. Even in these countries, a process of switching can be clearly seen. For example, New Zealand has now switched to the proportional system. Even within the UK, the newly created Scottish Parliament and the Welsh Assembly are elected through proportional elections. There are movements demanding the adoption of the

proportional system in the US and Canada too. Research shows that, on average, the quality of governance and economic growth rate is higher in countries with proportional elections than in those with the majoritarian system.

Since Bangladesh is striving to become a developed country by 2041, and it aspires to have better governance and higher economic growth rate, it should also move towards the proportional election system. In the special case of Bangladesh, as I have shown in my previous books and articles, there are at least eleven ways in which the proportional system can be helpful. We have already noted the first two, namely stability of election results and the increase in political tolerance that this stability forces upon the political parties. Third, proportional election reduces the objective scope for election manipulation, because it does not allow dramatic changes in the election results through small changes in the voting proportions. Fourth, the proportional system forces the political parties to include nationally renowned people on their lists. As a result, the composition of the parliament can improve. Fifth, it improves the nature of election campaigns, because it now has to focus on the national issues instead of parochial local issues.

Sixth, the proportional system eliminates the necessity of questionable pre-election alliances. Parties can test their own popularity and post-election alliances can be formed on the basis of proven political support instead of unfounded guesses. Seventh, the proportional system raises the importance of the political parties, because people have to be active in the party in order to get into their lists. Eighth, the proportional system will create better conditions for the development of local governments. Ninth, the proportional system will create a more level playing field for smaller parties to compete and get represented in parliament, which will thereby become more inclusive. Tenth, the proportional system eliminates the necessity of by-elections which prove to be unnecessary distractions. If any seat falls vacant, the next person in the respective party's list can automatically fill that seat. Finally, by producing more just and inclusive outcomes, the proportional system can lead to a more peaceful and constructive political life.

There is a concern about a possible lack of uniform geographical representation under the proportional system. However, given the compact geography of Bangladesh, this concern may not be that important. Also, there are ways of dealing with it under this system too.

In view of the above, it will be more beneficial for the country if the political parties start a national dialogue about switching from the majoritarian to the proportional election system.

Reimagining finance and social markets



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With the Fed raising interest rates again to 5.25 percent per annum, the mood in the stock markets seems to suggest that after a mild recession, it may be time again for wine and roses. With so much liquidity out there looking for attractive returns, global volatility has again reached low levels as if it is the calm before the storm.

Outside finance, scientists are warning about the warming effects of the El Nino, as well as the possible disruption to the Gulf Stream, which basically takes the warm waters off Mexico up the East Coast of North America to the cooler waters of the Northern Atlantic. With global warming, the Greenland ice-cap melting, and melting of the carbon-rich permafrost, scientists think that the Gulf Stream collapse would have a devastating impact on global weather and agricultural food production. If food production is disrupted, on top of the reduction in wheat, grain and fertiliser exports due to the Ukraine war, expect inflation to come back – especially for the emerging markets.

Basically, financial markets do not seem to factor long-term climate change issues into short-term price considerations. We live for the moment. This raises the question: who are the markets really serving?

Finance, of course, is a virtual human creation to serve the real economy, but after four decades of global financialisation, it seems that the real economy is serving financial interests. Markets are getting more and more concentrated. A recent NBER study based on US FATCA reporting showed that a significant portion of offshore financial markets holding \$12 trillion in financial assets were held on behalf of a fractional minority – the superrich who seek

We can now institutionalise wakaf in Islamic finance, because endowments in assets or claims on social enterprises can be achieved with accountability. Social enterprises will be audited to show that the funds they receive are ethically used as promised in their filed documents, much like listed companies file prospectuses.

to avoid taxation, have secrecy and anonymity. The recent shakeout in banking makes big banks bigger than ever and the US equity run-up is led by the Magnificent Seven tech stocks.

How should we reimagine the role of money and finance? Finance is the glue that links those who work for a living (the job market) and those who rely on capital (comprising natural capital such as land and resources and human capital such as intellectual property rights). In both advanced and

developing countries, there is a noticeable decline in the share of labour income as a percentage of GDP. In the United States, labour's share declined from roughly 64 percent to 59.7 percent by 2019. Employee compensation as the percentage of GDP in Malaysia has fallen from 35.5 percent in 2017 to 32.4 percent in 2022.

This secular trend where capital is getting more than its share of global income relative to labour has meant that after the Covid-19 pandemic, labour is pushing for higher wages, which will lead to

cost-push inflation. After decades of quantitative easing, when real interest rates (nominal minus inflation) were negative, capital was rewarded more than labour, because those who can borrow money cheaply are effectively doing so at the expense of poor savers and the majority labour force.

However, the hikes in interest rates since 2022 by the leading central banks are finally beginning to restore the balance between labour and capital. Higher positive real interest rates will begin to squeeze the asset bubbles, reduce speculation, and force businesses and consumers to be more efficient. Nevertheless, decades of financialisation have increased short-term consumption through growing debt, resulting in excess consumption and ruthless exploitation of natural capital. Climate warming, created through excess consumption and therefore carbon emission, is nature's revenge on human excesses.

The Gulf Stream, which flows in a cycle throughout the Atlantic Ocean, reminds us that life moves circularly to restore balance. Warm water meets the cool water and marine life thrives from that natural mixing. Similarly, finance cannot be more and more concentrated without huge social consequences. Economists such as Thomas Piketty have delved into economic history to argue that inequality rises when r (the net rate of return to capital) is greater than g (the growth rate of output).

In the pre-Industrial Revolution era, land was the most important form of capital, which was why the French people rose against the monarchy and landed gentry in the



FILE PHOTO: REUTERS

Who are the markets really serving?

French Revolution because of abuses in land rights and farm labour. Today, intellectual property is valued more than natural capital, because it preserves the rights of the minority who control the technology. With technology increasingly concentrated in large tech platform companies, inequality again has tended to worsen.

Traditionally, there have been two ways in which income and wealth has been redistributed to reduce inequality – higher taxation or voluntary charity by the rich. Islamic finance, for example, has the flow concept of *zakat* (the obligation of a Muslim to donate a certain proportion of wealth annually to charitable causes) and *wakaf* (or *waqf*), which is the endowment of assets that are donated, bequeathed or purchased for being held in perpetual trust for general or specific charitable causes that are socially beneficial.

The Securities and Exchange Board of India (SEBI) has just launched a Social Stock Exchange (SSE) to institutionalise donations to social enterprises through the existing infrastructure of stock exchange listing, trading and clearing mechanisms. For the first time, a new financial infrastructure is provided to help donors (individuals or corporate) to fund qualified social enterprises to deliver social impact transparently and with accountability. The legal instrument is the trading of a zero-coupon, no-return financial instrument. The buyer or donor does not expect return, but does expect social impact. On top of serving profit-making enterprises, finance can for the first time serve enterprises that deliver social good.

We can now institutionalise *wakaf* in Islamic finance, because endowments in assets or claims on social enterprises can be achieved with accountability. Social enterprises will be audited to show that the funds they receive are ethically used as promised in their filed documents, much like listed companies file prospectuses. The SSE demonstrates how technological and institutional innovations can reshape finance to serve corporate and individual social responsibilities in imaginative and creative ways.

Central banker Paul Volcker used to say that the only useful banking innovation was the ATM cash machine. Today, SSEs could be the financial innovation that would revolutionise the market in social entrepreneurship.

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CROSSWORD BY THOMAS JOSEPH

ACROSS

1 Grow paler

5 Wild pigs

10 Copying

12 Bay

13 Decennial official

15 Devonshire river

16 “— a Small World”

17 In the style of

18 Tennis star Williams

20 Marina spot

21 Very serious

22 Sewing aids

23 Disney deer

25 Church area

28 Main artery

31 Title paper

32 Messages

34 “— we there yet?”

35 Zodiac sign

36 John of “Harold & Kumar” films

37 Drummer with Cream

DOWN

1 Confronts

2 High points

3 Moolah

4 Print units

5 Drill parts

6 “Cat—Hot Tin Roof”

7 Acid opposer

8 Land, as a fish

9 Bra parts

11 Old English coin

14 2009 MTV show

19 Waned

20 Church topper

24 Small chimp of the Congo

25 Wise sayings

26 Fade away

27 Taken care of

29 Staple gun's cousin

30 Stick

33 Categorizes

35 Directors

36 Spike and Ang

38 Acquire

39 Director

40 DuVernay

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TUESDAY'S ANSWERS

1	2	3	4	5	6	7	8	9
10				11		12		
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15			16			17		
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