

Fighting recession

The Bangladesh economy has recently been in deep recession. Due to higher unemployment, actual income and output are far less than potential or full employment level of output, writes Uttara University Vice Chancellor Dr M Azizur Rahman

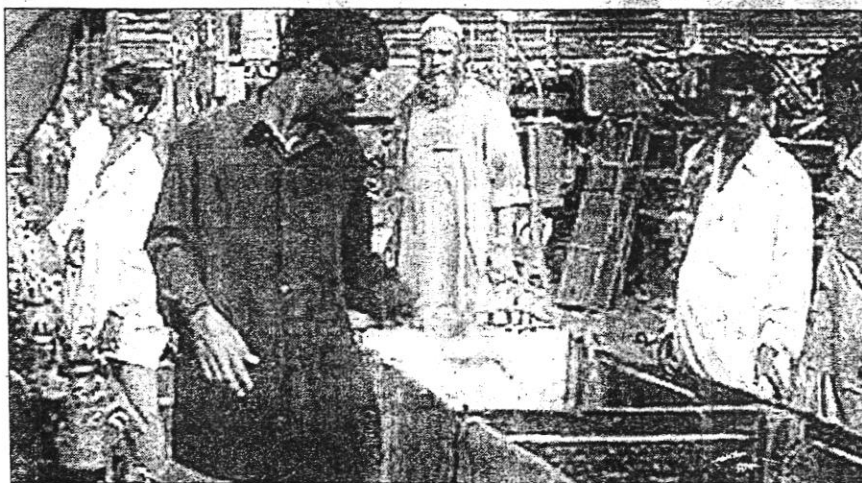


Recession is a difficult time for the economy of a country, when there is a backward move of business and industries, and less business and less trade and less industrial activities than usual. More of our people are unemployed as an impact of the current recession.

Economic objectives of the government are to maximize the economic growth, national income and output or production of goods and services of all kinds including those goods of basic needs that are essential in life such as foods and nutrition, clothes, shelter, health and education. Among the other objectives is decreasing unemployment to a natural rate so that everybody is getting job who would like to work and can maintain their purchasing power in the face of inflation, and meet their basic needs in life. The third major objective of the economy is to earn the price stability so as to help us avoid an undesired distribution of income between different groups. From price instability or higher prices of goods and services or inflation, consumers suffer from relatively low level of purchasing power. Low income consumers are hard hit the most.

As mentioned before, the economy has recently been in deep recession. Due to higher unemployment, actual income and output are far less than potential or full employment level of output. National income and output, and Gross Domestic Product (GDP) and its growth are significantly low and getting lower. Many are assuming the growth less than 6% and will be lower further. If any active economic policy is not taken now, the economy is going to be in trouble soon or in near future. Active policies are needed at the earliest possible convenience to pull the economy out of recession.

Demand for all kinds of goods and services including the purchase of housing and apartment, durable, necessary and other than necessary



Workers, retrenched due to closure of jute mills leaving their workplaces

goods have decreased substantially as the consumers are scared of making a big purchase. Investment in business is a large part of aggregate demand, which has been decreasing significantly due to a lack of confidence in the recent activism of anti-corruption. Economic cure is getting worse than the disease of recession. Foreign investment in Bangladesh has decreased almost by one-fourth due to the political instability.

Our competitiveness in international market has decreased due to higher prices of our goods and services. Many of our exports including those of apparels and frozen fish have gone down. Export problems are getting worse also due to the lack of quality assurance and timely shipping in this uncertain state of manufacturing world and export sector. Finally, our net export (export-import) has been decreasing. Balance of trade is not favorable anymore.

Bangladesh is a major im-

porting country. We cannot stop or even decrease the import of energies, oil and essential goods and services, even though their prices have increased in the exporting country and India due to worldwide inflation. Further, our exchange rate is too low, which is also contributing towards our balance of trade in getting worse. However, import of essential intermediate goods and raw materials including fertilizer has decreased compared to its demand at home. This is also may be due to a lack of confidence in import business that requires a high margin. Importing of all these above are impacting on pushing the cost of production up at home and raising the inflation.

From the above statement, we can easily infer that aggregate demand for goods and services have decreased, which have a multiplier effect on lowering national income and output and the standard of life and living.

On the supply side, cost of

production has been increased due to higher wage in private and other sectors, higher import price of oil raw materials. Supply side problem has been complicated with higher unemployment, labor unrest for higher wage especially in apparel sector, recent inundation by flood, rainfall, drought, river erosion, political instability, and activism of anticorruption. Aggregate supply of goods and services have decreased to a great extent.

What kind of economic policy do we take now? Can we take any contractionary economic policy by decreasing money supply or by decreasing the budget deficit, or by increasing tax rate. No, not at all, we cannot afford taking any of the above contractionary policies in this economic stage of recession, which will further squeeze the economy and might take it to a point of collapse. Since our inflation is more of cost push than a demand pull, we cannot take any policy that will decrease the ag-

gregate demand further. In fact, we need to increase and maintain aggregate demand by the demand management expansionary monetary or fiscal or tax policies.

We take an expansionary economic policy to increase the aggregated demand for good and services. In this article it is clearly agreed to increase money supply, or increase the budget deficit further, or increasing both. It will also increase the consumer's purchasing power to some extent by accommodating a part of inflation. As an element of supply side policy recommendation by economists, a decrease in tax may be undertaken to increase the both aggregate demand and aggregate supply in such a way that the total tax collection by Government may not decrease. If the luck favors us in enhancing the growth significantly, the government might even increase its tax revenue for a total from the higher level of national income and output. Also, the Supply Side Policy (SSP) is not expected to have any effect on increasing prices.

The article has made a categorical suggestion that the Bangladesh Banks earlier decision of contractionary monetary policy and tight credit to control inflation was far less than a good policy. Because this was not a treatment of a cost-push inflation.

Among other policy agenda would be to increase productivity, or per labor production by technological improvement and innovative discovery of production mechanism, cost effective technology, substitute goods and products for consumption and use as intermediate goods or raw materials. Import substitution manufacturing establishment is to be increased. For agriculture private sourcing for high yielding seed variety, fertilizer, irrigation technology and insecticides may be expanded.

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