

The art of managing expectations

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In the Western world, whenever a new government takes over, their economic and political teams generally work hard in lowering people's expectations about what can be delivered by the government in the near term.

Consistent with that, we observe US President-elect Obama and his team are painting a very bleak economic outlook for 2009, and working hard on selling a very large stimulus package to the US Congress.

Essentially they are concertedly working on reducing people's expectation from the incoming Obama administration while working hard to improve the situation as soon as they take over the administration by putting together a high-powered economic team to face the challenge.

In contrast to this seasoned and thoughtful strategy, we observe some of the following statements from several

new ministers of the new Bangladesh government: "We will bring rice prices down to below Tk 20 per kg."

"We will destroy all business syndicates to bring prices down to levels affordable to ordinary people."

"Fertilisers will be chasing the farmers instead of farmers chasing fertilisers."

Certainly these statements were made sincerely as the new government would make honest efforts to achieve

the stated objectives. Nevertheless, listening to these statements makes one wonder whether the ministers really

took into consideration how markets work and how difficult the tasks would be, if these are at

all achievable.

People's expectations are already running high following the landslide electoral victory. Many promises were

already made during the election time, which may be difficult if not impossible to deliver.

Certainly, instead of

dampening people's expectations after surging to power, making new promises which in the event may not be

realised, would be imprudent.

Let's examine the objective of bringing rice prices down to less than Tk. 20 per kg within a month. Before

making such a statement, there is need for a careful review if such an objective is desirable from the national

perspective given the current cost structure. If realised, such a policy will have profound negative impacts on

farmers' income and their output response, with serious detrimental effects on the overall economy.

We must remember the record output response from the farmers in the last boro season, which may largely be

attributable to the high output price for paddy at that time. Even after the recent cuts in prices of fertilisers and

diesel, cost of production may only go down by Tk. 1 per kg, if the benefits of the cuts reach the farmers fully,

which is a toll order. How would the farmers recoup the difference? Certainly, efficiency gains to be made

through increased productivity cannot be achieved in one month. Moreover, with current world price of rice at

\$500 per ton or equivalent to Tk 35 per kg, should we allow Bangladesh's domestic price structure to be so

much misaligned?

Government should not make an allegation unless it has the evidence in support of that. It would be most

relieving if relevant government agencies investigate the issue of "business syndicates" and bring credible

charges against culprits. Making statements against a "ghostly entity" do not serve anybody.

It is a favourite past time for economic commentators, politicians, and government officials to blame any adverse market development to syndicates. They should rather look at market developments (bad or good) as price signals identifying the overall supply situation relative to demand and market outlook. Market is the messenger, and policy makers should guard against not killing the messenger if they do not like the message. Remember how ill-prepared was the caretaker government when Bangladesh was hit by Cyclone Sidr and the commodity price shock? It was through the market signal in the form of a surge in rice prices that everybody realised how vulnerable Bangladesh was due to a rapidly depleting food grains stock. It was because of that early market signal — enabling the government to mobilise all resources under its control to enhance supplies by ensuring a bumper boro output — that helped it avoid a disaster. Please let the market perform its “price discovery function,” work on ways to enhance competition and supplies, and do not destabilize functioning of markets through irrational statements. Within a very short time we will be seeing whether or not “fertilisers will really be chasing the farmers in Bangladesh.” Our memories are still fresh with joint forces raiding unauthorized godowns or confiscating trucks and trawlers loaded with fertiliser headed for Indian and Myanmar. In the past it used to be only urea, which has always been sold at an artificially low price by the government. This year, with the just announced price cuts in other fertilisers (TSP, DAP and MOP), the number of items and the problem would only be so much greater. In a few weeks time it may be likely that we will be hearing the same old story that fertiliser is rushing to the borders and farmers barricading roads demanding their share of fertiliser. The caretaker

government has left behind a healthy fertiliser stock (1.4 million tons compared with the estimated demand of 1.2 million tons), if we still fail to deliver them to the farmers that would be primarily because of our pricing policy.

Managing expectation is an art which all government needs to master in today's media-centric world. Surely the relevant ministers would do their best to achieve (at least in part) what they are stating in the press and there is no doubt about their sincerity. All the while, working toward the objectives, we should be aware of the reality and limitations of the system. Expectations are already running very high, and the fire needn't be fueled further when delivering the plethora of earlier promises will be a challenge.

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