

7. Most government aim for full employment and stable prices. Which of those two aims should your government seek to achieve in the coming year and how might this choice affect the other aim?

A. Full employment is the level of employment a country achieves when there exists no involuntary unemployment in the economy. Stable prices means that the general price levels of an economy remains constant.

However, these two variables often conflict with one another because to bring about changes in one of them the other objective must be sacrificed.

To eradicate involuntary unemployment i.e. cyclical unemployment, structural unemployment; it is necessary to sustain aggregate demand (AD) and the same production structure in the economy. However sustaining AD will not allow general price levels to remain and structural changes must occur to help the economy diversify, develop and use its resources to its most potential use.

Bangladesh is a developing economy and initially had its industries directed and managed by the central state after the country won its independence. But despite three decades of independence, the country still faces various crises such as underemployment and rising inflation. The industries of the country also faced large structural changes and demand shocks alongside damages caused by natural disasters.

Jute production was a main source of income for the rural workers, which makes up majority of the population, until there was a reduction on world demand for jute which has been replaced by synthetic materials. Hence the output of jute fell with the reduction of demand and hence many workers who specialized in jute cultivation and crafts were made redundant.

Though, Bangladesh managed to revive the downfall of the agricultural sector by increasing rice production. This was assisted by government subsidies, loans facilities provided by foreign non-government organizations (the NGOs). Therefore the opportunity was taken by the rural population to increase rice production. This also attracted more labor to acquire cultivation skills to start rice production. However over the years Bangladesh is again faced with unemployment problems because there is now a large population of landless farmers.

Although Bangladesh is a less developed country, private investors managed to create successful industries of textiles and pharmaceuticals both of which provided new employment opportunities. The textile industry in particular has provide large job opportunity for people and especially for women as traditionally Bangladeshis are skilled at the trade of weaving, sewing and designing. However, workers do still need a certain level of training to make modern machineries work. Nonetheless, the opportunity in the industry attracts a large amount of the rural workers to the urban areas where textile factories are situated. As a result, rural workers who had low productivity in their country areas become zero productive on migrating to urban areas because jobs are available of limited amounts. Therefore there occurs unemployment.

Dhaka, the capital of Bangladesh, is one of the fastest growing metropolises in the world. People's incomes are rising faster in this city than the rest of the country. There is also a boom in the services sector due to this increase. Cellular telephony is one of the most important services industries in Bangladesh. The banking and financial structure is weak but reforms are introduced by the government and shares in the companies sold to foreigners to encourage transfer of technical know-how expertise.

Such rapid injections of investment, government spending, exports and consumption has made prices rise in Bangladesh at an increasing rate. Hence there is an element of demand-pull inflation as demand for goods and services are rising faster than the supply of these commodities

Due to rising price levels, workers demand for more wages which if unfulfilled lead to severe militant actions by the trade unions. Therefore, to avoid calamities higher wage pay is normally negotiated.

The infrastructure is not well-developed and therefore firms face high transport costs and get late in fulfilling orders and so costs of production are rising in the economy.

Therefore, there is also an element of cost-push inflation.

But the price in price-levels is also a process of correcting market distortions. Because the country is faced with a large population of underemployed people, prices were kept low artificially by price floors set by government to enable most people to be able to afford the goods and services, particularly foodstuff.

The rise in prices was mainly because these price floors were removed to clear the market when demand and supply moves towards the equilibrium output levels. Therefore prices are not stable but are rising. This change is extremely unpopular among the people. However, stable but low prices suppress unemployment. Low prices cause pessimism among investors and hence they are unwilling to make investment into the country's industries. With no prospective investment, output levels do not rise. Since output does not have to be increased labor which has a derived demand, is not demanded or employed as there is no rate of return on doing so.

Furthermore, the low stable prices used to bring farmers low profits. Due to this banks charged farmers with high interest rates for any loans on the grounds that the peasants are high-risk borrowers.

For the peasants the burden was too great and hence many were discouraged to borrow and increase their output. This also means that they would not hire more labour to help in the yield.

Hence, keeping prices stable at low rates also means that there would be higher unemployment in Bangladesh.

In the coming year though, the government should aim at increasing level of employment even if it means price levels will accelerate.

Price levels were kept low and stable in the first place so that the people with low incomes could afford the goods. To achieve these even markets distortions were accepted. But Bangladesh now is becoming more inclined to the market system and is slowly opening its economy to freer trade. It must attempt to let the market operate by the operation of forces of demand and supply. The government should adopt supply-side policies such as increasing education and training levels, encourage improved production techniques, offer incentives for regional investment, privatization, deregulation, increase labour mobility, occupational mobility, increase range of sources of capital available to firms and internalize externalities. The policies in particular to do with education training, health facilities, labour mobility and information will increase labour productively and employment opportunities. These policies though will encourage in turn a rise in aggregate demand once employment and levels of income and profits rise. Increase in AD will cause price leaders to rise due to demand-pull inflation.

Due to the extreme costs of unemployment such as greater opportunity cost of output, psychological, damage, increased crimes and black economy activities, the government of Bangladesh should aim at increasing employment rather than keep prices stable.