POINT ** COUNTERPOINT

Our socio-political scenario and tax administration

DR DHIMAN CHOWDHURY

AX effort in Bangladesh, as measured by tax to GDP ratio, is one of the lowest in the world. The tax to GDP ratio during 1997 was 9.6% in Bangladesh, 14% in low-income countries, 15% in South Asia, 29% in high-income countries, and the world average was 27%. In our income tax administration, there are a total of 91 circles under 8 zones for assessment and collection of income tax. In addition, there are three directorates for monitoring and control of tax directorate of survey to bring potential taxpayers under tax net, the directorate of intelligence and investigation for investigating into the cases of tax fraud, and the directorate of inspection and audit for scrutinizing assessment orders and auditing accounting records of tax offices. The table below shows the performance of Directorate of Inspection generated only \$2.2 for each \$1 invested in FY1995-96 and after that year operated at a loss. The comparable ratio in the USA is 10 to 1. The total revenue/total cost ratio of \$60 (not in the table) in Bangladesh income tax administration as a whole also seems to be low compared to 200 in USA, and 100 in Canada and Sweden Income tax as a percentage of GDP is only around 1% and decreasing

over years. Socio-Political Scenario Social Security In Bangladesh there is no insurance contribution in its tax structure whereas, in developed and industrialized countries, national insurance contribution comprises more than 25% of their tax revenue. The OECD/industrialized countries spent 34.4% of total central government expenditure on social security and welfare during 1992-95 whereas developing countries spent almost nothing on social security (data on absent in the reports for these countries meaning that there is no significant formal social security system). People with social securities are expected to have higher motivation to pay tax than people without such securities. In a country without social security, even one of the highest in the world. those who can afford to pay tax will have motivation to avoid it because by doing so they themselves insure their social security.

expanding conventional social insurance coverage in Bangladesh are many including a large population, the large rural population, the large informal sector (about 90%), huge unemployed labor force, low per capita income, and the higher incidence of poverty. Closely-Held Family Structure

the conventional social security

system of the state and private

sector does not cover the house-

hold, farm, and self-employed

workers whose incomes are very

low. Obstacles in the way of

Social relationship in Bangladesh is closely related. Well-to-do

family members are used to take some burden off less well-to-do family members. Children take care of their parents in their old age. Old age pensions and elderly homes are almost nonexistent when the total population is taken into consideration. Still, there are joint-families where a group of people who cook at one hearth, who hold property in common and who participate in common family worship and are related to each other as some particular type of kindred. At present the data suggests that most families although not operating jointly, are nevertheless linked by a keener sense of mutual obligations and a more intense loyalty to distant relatives than are families in the West. Traditionally, the spouse takes her food after feeding her husband and other family members. Furthermore, family size is higher in Bangladesh compared to developed countries, and all members cannot be trained, educated, and cared for equally because of social and economic realities. As a result, all members cannot earn equal social and economic status. So even a wellto-do member earning taxable income has motivation to avoid and evade tax because he thinks for other family members who are dependent on him. In fact, the dependency ratio in Bangladesh is

The bureaucracy in Bangladesh is highly politicized. Particularly, during the last fifteen years (three parliaments), there have been

Bangladesh has not any conventional social security system of the state and private sector, it has a closely-held family structure, its bureaucracy is highly politicized, the parliament is inactive, the earnings of taxable people are largely nontransparent, and there are waves of migration and immigration of rich people -- all these taken together led to higher scopes for the people for tax evasion. nent in 1947 led to a transfer of and employers. Even in the US,

positions with the change in the party in the parliament (cosmetic parliament though). If one looks at directors (non-executive directors) in various state agencies including banks and financial institutions, one would find that the majority of them were party leaders and holding high political positions. This behavior is against the spirit of the role of "independent" non-executive directors suggested by worldwide corporate governance bodies. Political appointees to a public agency serve at the pleasure of the appointing authority and may be dismissed or transferred if they are not responsive to its programmatic goals. In this situation

political appointees are judged

less on the basis of results than for

loyalty to their political superiors.

Quality of Earnings

Investigation:

Inspection and audit:

Files re-opened

The quality of earnings in business and bureaucracy is probably the worst. The study by Transparency International of the perceptions of executives, businessmen, and policy makers across the world ranked Bangladesh business and bureaucracy as the most corrupt in the world. Bank loan default culture is a national crisis in Bangladesh where 30% to 40% loans in commercial and development financial institutions are classified. In the public sector, private gain in

There are widespread irregularities in the tender processes, and salary, allowances, and benefits. In fact, 12.1% of the total number of audit objections in the government audit during 1996 was related to tender related irregularities and 14.2% were related to unauthorized salary, allowances, and benefits. So when sources of earnings are non-transparent, the revelation of these earnings is expected to be non-transparent (tax evasion). About salaried incomes, it is however, to be noted that majority of the salaried employees in both the public and private sector, earn poverty level or slightly higher than poverty level incomes.

Migration, Immigration, and

Bangladesh had a long history of zamindar (landlord) system (1793-1950) where some landlords were in possession of the vast amount of the country's land and they used to collect rent from the peasants for leased lands. Most of them were Hindu zamindars. Development work, mainly education, was Calcutta based (Calcutta being the capital city of British India). So money and resources were used to be transferred to that part of British India. Many historians blame the British for promoting of the semifeudal zamindar system for draining the region of its wealth. Partition of the Indian subconti-

Monitoring Activities and Revenue

Source: Computed from annual reports and departmental unpublished

data. Year-end exchange rates have been used for translation of taka into

92-93 \$3-94 94-95 95-96 96-97 97-98 98-99

ated States of India and Pakistan. After 1947, Pakistan started exploiting East Pakistan economically and politically, causing separation of East Pakistan, now Bangladesh, from Pakistan in 1971. Parnwell, in his book. Population Movements and the Third World, shows that inequalities in the pattern and process of development influenced migration in the Third World. During the recent years, the great majority of all long-term and permanent immigrants to Australia came from countries of the British Commonwealth. Immigration from Bangladesh to the US has increased from 800 in 1984 to 1600 in 1987. It is observed that a significant number of members of the business faculties in the country's universities with a western degree have migrated or immigrated to overseas countries. The impact of migration and immigration depends upon who is moving, the circumstances which led to the move, the purpose of the movement, the form of the movement, and the extent to which the migrant succeeds in achieving his or her objectives. However, the mission and vision towards immigration could create a culture of short-termism in the sending country that might hamper its long-term development.

about 15 million Hindus and

Muslims between the newly cre-

The ParliamentThe parliament, although it has limitations, is universally considered as the apex body for a country's good governance. Ilbert, in his book, Parliament, its History, Constitution and Practice, showed that the word parliament originally meant to talk; it was a council or conference of great men to discuss grievances. Campion and others in their book, Parliament: A Survey, defined parliament as a government by talk, or control of the government by talk. The Commons became the effective controllers of taxation during the fourteenth century in England. In the modern parliaments, the House deals with issues of national importance and various standing committees deal with specific issues of various departments of the bureaucracy, and

ity and responsibility in the country's machineries. The parliament regulates not only the public sector but also the private sector business, commerce, and trade in an economy. The countries without the parliament are characterized by lack of democracy, dictatorship, autocracy, and military rule. In Bangladesh's thirty years of history since 1971, there was no parliament in twelve years. In the rest of the period, the parliament was largely cosmetic, and characterized by quorum crisis, long boycott from the opposition, and shorter duration. The parliamentary standing committees were dominated by the members from the ruling party (chairman always from the ruling party). The Public Accounts Committee could recover only 10% of the money involved in the Comptroller and Auditor General's audit objections. More than 20% (the second highest) of the number of audit objections in government audit during 1996 was related to taxa-

thus try to establish accountabil-

Conclusion Bangladesh has not any conven-

tional social security system of the state and private sector, it has a closely-held family structure, its bureaucracy is highly politicized, the parliament is inactive, the earnings of taxable people are largely nontransparent, and there are waves of migration and immigration of rich people -- all these taken together led to higher scopes for the people for tax evasion. In this poor socio-political scenario, our tax administration is weak and its control mechanisms such as survey work, intelligence and investigation, and inspection and audit cannot function independently. Successive governments have mainly relied upon incentives but could not enforce the control mechanisms. Corporate tax rate has been reduced from 45% in the 1980s to 35% in the 1990s; earnings threshold for income tax has been continuously raised; selfassessment system has been made easier; tax holiday benefits have been extended year after year; and discretionary powers of tax officials have been reduced. But the institutional control mechanisms are getting weaker year after year. Good governance must have an element of incentives on the one hand and some disciplining mechanisms on the other hand. There is evidence that this system has proved successful in families, modern corporations, and national governments.

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the 'poverty line' reality. In today's

world, individual philanthropic

efforts to impact education or to

establish health facilities cannot go

far. One to one exchange of philos-

ophy or 'Nyay' cannot be sus-

The institutionalised systems

must be made to work. Quality

must be ensured in poor people's

service delivery points, be it

education or health. Movement

beyond the poverty line reality

will, in addition, require pros-

pects of large scale employment

creation, so that everyone can

choose to work. It will require

such economic growth as will

reduce inequality. Other leakages

through which inequality

increases, must be stopped. All

these are known strategies. Then

why this is not happening? The

problem is not people's lack of

willingness to work. The

encouraging trend (concrete

data and technical aspects of

unemployment among new

labour force and those suffer-

ing job loss may be presented

in a future extension of this

article). The presence of

workforce willing to work at

low wage rates should be a

sufficient force to shake the

conscience of those who can-

not create an environment

where enthusiasm about pro-

ductive investment will be

streaming in and quality ser-

vices in social sectors will be

When the individual and the

nation remain unaware of their

Merchants of hate: Following Pakistan's deadly example

I grew up saying jumma prayers at Dhanmondi' Baitul Aman mosque. We had a tolerant, educated imam whose khutbas encouraged Muslims to educate themselves and uplift the community. If we wonder why the Muslim world is in crisis, we only have to look at frauds and illiterates

like Mamtaji, busy distorting the true message of Islam

and preaching fanaticism, hatred and backwardness.

NAEEM MOHAIEMEN

↑ TE don't want to take the law into our own hands, but we don't know what will happen to [Ahmadiyyas]," warned Mamtaji, imam of Rahim Metal Mosque. This was his latest salvo in the recent anti-Ahmadiyya campaign.

I grew up saying jumma prayers at Dhanmondi' Baitul Aman mosque. We had a tolerant, educated imam whose khutbas encouraged Muslims to educate themselves and uplift the community. If we wonder why the Muslim world is in crisis, we only have to look at frauds and illiterates like Mamtaji, busy distorting the true message of Islam and preaching fanaticism, hatred and backward-

By preaching hatred of Ahmadiyyas, we are following a blueprint carried out to deadly effect in Pakistan since the 1950s. With so many nations to emulate. why are we copying Pakistan -- a textbook case of failed state and banana republic?

On August 11, 1947, Jinnah gave a speech at Karachi Club where he said, "You are free; you are free to go to your temples, you are free to go to your mosques or to any other places of worship in this State of Pakistan. You may belong to any religion or caste or creed -- that has nothing to do with the business of the State." Following this spirit, Pakistan's first foreign minister was Sir Zafrullah Khan, an Ahmadiyya, The 1956 constitution also gave citizens the right to practice, and propagate their religion (Article 20).

The Islamic parties had always been suspicious of Jinnah's motives in creating Pakistan, and now they were disappointed. This was not to be a theocratic state at all! In 1948, during a drafting session of the UN's Universal representatives from Saudi Arabia clashed with Pakistan over Articles 19: Freedom to change one's religion. The furious Saudi delegate had to listen to Zafrullah Khan describe the Article as consistent with Islam's denunciation of compulsion in religion.

This Saudi anger (and possibly money) soon found its way into Pakistan's domestic politics. One year after Zafrullah Khan's clash with the Saudis at the UN, a new group called Majlis-e-Ahrar-e-Islam issued a demand that Khan be removed from the cabinet, and all Ahmadiyyas be declared non-Muslim. These agitations peaked in 1952 with riots in Punjab, and on May 18 Khan resigned from the Basic Principles Committee.

The campaign was then intensified by Maulana Maududi's Jama'at-i-Islami, which launched a project to declare Ahmadiyyas non-Muslim, linked to a larger demand for Shari'a law. Prior to the 1958 military coup, the Muslim League and other ruling forces strongly opposed creating a theocratic state. The government therefore fought back aggressively against the anti-Ahmadiyya campaigns, arresting many Jama'at

Following the 1958 coup, the Islamization" of Pakistan's constitution began. The process often focused on anti-Ahmadiyya laws. In 1962, the Advisory Council for Islamic Ideology added a clause to the constitution: "No law shall be repugnant to the teachings and requirements of Islam." The East Pakistan politicians always acted as a brake on overt Islamicization. as the Bengali population was not (at that time) interested in passing Shari'a laws. However, following the independence of Bangladesh, Pakistan approved a new constitution in 1973, parts of which began implementing the legal machinery of the Shari'a

Following a new wave of anti-Ahmadiyya protests inn 1974, Zulfikar Ali Bhutto introduced Articles 260(3)(a) and (b) into the Constitution, which defined who was a "Muslim" and listed groups that were legally non-Muslim. Ahmadiyyas were now listed in this second group. The process of disenfranchising Ahmadiyyas now had a solid legal basis. Just as Islam was codified as "state religion" in

Bangladesh during two military regimes (Zia & Ershad), the anti-Ahmadiyya legislation was solidified in Pakistan during the military regime of Zia-ul-Haq. In 1978, Haq passed laws creating separate electorate systems for Ahmadiyyas and other "non-Muslims." He then followed this by creating Federal Shari'a Court which helped legalize criminal ordinances targeting religious minorities -- specifically two laws restricting Ahmadiyya activities (Martial Law Ordinance XX, 1984). The final death-knell for Ahmadiyyas came with the Criminal Law Act of 1986 ("Blasphemy Law"), which raised the penalty for blasphemy from imprisonment to death. Because the Ahmadiyya belief in prophethood of Mirza Ghulam Ahmad can be defined as "blasphemous" by a Shari'a Court, this law legalized persecution and even execution of the entire Ahmadiyya population.

Khan's position as first foreign minister of Pakistan is now a distant memory. Today Ahmadiyyas in Pakistan cannot announce their faith, pray, build mosques, or give azaan. Even in death, there is no escape from the state -- the law prohibits putting the kolema on an Ahmadiyya's gravestone. Pakistan's only nobel prize winner, Professor Abdus Salam, was persecuted because of his Ahmadiyya faith. Ahmadiyyas are only 3% of Pakistan's population, but 20% of its literate population. In an age when Muslim nations are incredibly backwards in science, technology and education, the peresecution of Ahmadiyyas accelerates our intellectual bankruptcy. In the Prophet (PBUH)'s time, in cities that the Muslim armies took over, non-Muslim populations (including Jews) were treated humanely. How far we have traveled from that tolerant ideal can be seen in the Daily Star report (Dec 6): "They threatened the Ahmadiyyas with arson in symbolic imitation of the burning of the newspaper [Prothom Alo]."

If the anti-Ahmadiyya groups are allowed to continue their agitations and threats, Bangladesh will soon slide down the treacherous path Pakistan took with the forced resignation of Zafrullah Khan in 1952. Starting with Ahmadiyya persecution, it is very easy to see that these groups' eventual demand will be Shari'a

In the last two years, I have been to many rallies in America protesting the unfair targeting of Muslim immigrants in the post 9/11 antiterrorist campaign. At these rallies, have seen many signs carrying the famous quote from anti-Nazi

"In Germany they first came for the Communists,

activist pastor Martin Niemoller:

and I didn't speak up because I wasn't a Communist.

Then they came for the Jews, and I didn't speak up because I wasn't a Jew.

Then they came for the

and I didn't speak up because I

was a Protestant. Then they came for me-

and by that time no one was left

to speak up." If we protest the scapegoating

of immigrants in America, we must also protest the persecution of minorities in Bangladesh. Otherwise, when the shadowy merchants of hate come for all of us. it will be too late. Pay attention to Pakistan's tragic path, and fight to protect Bangladesh from a similar fate!

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Beyond the poverty line

RUSHIDAN ISLAM RAHMAN

It is however, to be noted that

social security benefits across the

world are mainly financed out of

payroll taxes paid by employees

HERE is controversy about Bangladesh's performance in poverty reduction during different parts of the last two decades and about the percentage of the population who are currently living in poverty. But the absolute number of persons living in poverty is so large that there is no controversy about the urgency of reducing poverty. The following discussion will focus on a different set of controversies related to the question of poverty.

Whether a person is poor is decided on the basis of the poverty line. By now, the "poverty line" has become a part of common language and is no longer an economist's concept only. To recapituincome which is sufficient to allow the consumption of required calories and nutrients and other basic requirements (clothing, housing etc).

The most important controversy about the line is that it is a "livestock" concept and does not take into account the "humane aspects. Researchers have conducted participatory investigation and found that human beings need the following, in addition to one's own current consumption: cost of schooling of children and for safe drinking water, expenses for essenrelated to childbirth, expenses for legal protection in the case of robbery etc, savings for old age and natural calamity etc. (the list is by no means complete).

However, extension of the list of basic consumption and inclusion of income allocations for some of the items listed above will raise the imply that a larger percent of the population will be labeled as poor.

Though it is not the main concern of this article, it should be clarified that the proponents of poverty line, did not, however, argue that a person must consume the suggested bundle. It is well known that people exercise their freedom and may spend a part of their income on items not prescribed in the bundle. The line cannot ensure that an individual consume the suggested bundle. But as long as the consumption bundle behind the line remains fixed, it can provide an

number and percent of population

While leakages occur for the traditionally suggested consumption bundle, leakage may be even larger, if the poverty line is drawn with provisions for additional allocations so that it becomes an "effective poverty line" or "human poverty line." In fact, one should not be surprised if a large part of income of some urban poor is spent on harmful consumption items (e.g. narcotics etc).

The list has also been extended to include respect and human dignity which are very much nonmaterial and non-consumption items. Many persons may wish to have these ingredients as much as and goal of the society. Another argument against poverty research is that those countries which are poverty-free did not spend time researching and analyzing poverty, rather they jumped straight into action and eradicated poverty through their own initiatives. A third sympathetic voice can be heard, questioning whether the poor are such helpless, fragile creatures that they are subjected to head-count? And is it enough to merely provide them with a bare minimum of food and clothing? Even if the arguments behind some of these questions are not conclusive, the urgency of talking beyond the line must be accepted. The following (and many other) questions trigger this urgency.

earning from a regular job. Thus, employment enhances both personal satisfaction and also enables a person to make a productive contribution to the economy. The notion of income poverty

line is based on a concept called 'utility function" used in economics textbooks. To translate this concept to common language, it describes the behavioral features of human beings' satisfaction. Utility or satisfaction is supposed to increase continuously with increases in two items: income and leisure. Work does not enter the function because the result of work is income, which finds its place in the list. The particular formulation reflects the realities prevailing in simple living, sacrifice of material gains (Tyag-tikikhya) are the ideals The new emphasis on poverty

reduction raises the question, whether those days are gone, when high thinking and philosophical endeavors amidst poverty were strived for and would command respect? Yes, those days no longer offer promises of return. One of the major reason is that, today, the problem of poverty is further compounded by the existence of nequality of income and its manifestations. The wealth inequalities between countries may be due to a conglomeration of historical and random factors. But the level of inequality that exists within our

When the individual and the nation remain unaware of their abilities and strengths and remain unenthusiastic in a state of lack of work and participation in the development efforts, the more "useful" side of poverty cannot be noticed. Only if a nation and its people will use their own strengths and abilities, the calamity of poverty may be turned into a fight for a sustained improvement in all spheres and for a search of the space beyond the poverty line.

or more than material well being. This may depend on one's present social status and experience of current deprivations.

In addition, access to social and community services provided by private and public organisations can improve the quality of life. Therefore, the human poverty index has been formulated, which consists of literacy and health related indicators as well as income indicators. This index can supple ment the data on income poverty line based poverty estimates.

The current usage of the poverty notions and the emphasis on poverty reduction gives and mpression that moving above the line is the ultimate goal. There may be doubts whether the current interest in analyzing poverty and its causes stems from the noble motive of wishing to battle and vanquish poverty, or whether it is just an opportunistic form of donor-driven research. Discussions and refinements of measurement methods, analysis and reanalysis of head-count data and setting and revision of targets of the rate at which the poverty line will be crossed may imply interference by donors in not only research but also in the domestic policies and in the setting of a long-term vision

Whichever concept of poverty we use, poverty alleviation is all about access to income and movement above the line. It has no link with how income is obtained. Such a notion is devoid of the people's concern about doing, about work and employment, which is the main route through which both poor and rich persons can contribute to the economy and the society There are many other non-work routes to make contributions to society. Therefore, it should be clarified, why we begin with

In countries like Bangladesh, where unemployment and underemployment rates are high, work or employment itself has an intrinsic value. This may be also valid for many high income countries with high unemployment rates. Type of work also contribute to one's satisfaction (or lack of it). Whether income is received as transfer (or charity) or safety net or through productive employment may thus be as important as the amount of income or consumption. Persons, especially younger persons who are without work and consuming daily rations in father's shelter (the Bangla phrase babar hotel cannot be more accurately translated) would be happier to eat less calo-

ries purchased with their own

advanced industrial economies where work is abundant, or in other words, full employment prevails.

We may think about the possibility of making contributions in another sphere. Irrespective of income and asset situation, one may contribute for the society and for other individuals a part of their wisdom -- which they may acquire not only through formal schooling but also through accumulated experience, spiritual endeavor etc. An immediate reaction to this statement will be that, such endeavor is almost impossible, when people cannot meet their basic needs. High thoughts in empty stomach: only the rich people can suggest such impractical things.

High thoughts by persons with less than adequate calories has been a tradition of this land. Gyan o dharma, joto kabbo-kahini were passed on to generations through informal discussions and teaching methods. Those were days of conviction that the ultimate goal is not material gain, but a freedom of soul, from the wishes of tiny material gains towards an understanding of the mystery of this creation and the intentions behind this creation. According to this view,

In addition to the problems of poverty, another quandary becomes more intense when we witness that like many of the develwithin our own poor country who suffer from the opposite of poverty the existence of too much wealth. Not only it is intolerable to silently witness two different problems arising from two extremes of poverty and wealth, but the latter may act as an impediment to poverty reduction as well. A reduction of inequality can be the most effective means to poverty alleviation.

bution of income and asset.

On the hard grounds of economic reality, it is not easy to work out of poverty or to fight along the teacherous paths to reach beyond

country is generated by forces which are much within our own

oped countries there are groups -- i.e. social problems arising from

of poverty was caused by a lack of productive resources and the lack of suitable means for using many of the resources productively. Now we have the technology to make use of the resources scattered over and inside the layers of the earth. It should be possible to move from poverty to progress using all these assets and ensuring a better distri-

workforce who are at the lowest rung of the ladder are still willing to work. Data on employment creation and unemployment rates, especially among the younger groups with some school education, do not depict an

available.

abilities and strengths and In the past much of the problem remain unenthusiastic in a state of lack of work and participation in the development efforts, the more "useful" side of poverty cannot be noticed. Only if a nation and its people will use their own strengths and abilities, the calamity of poverty may be turned into a fight for a sustained improvement in all spheres and for a search of the space beyond the poverty line.

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