Need for a Pragmatic Budget

by Tarek Rashid

THE new national budget is going to be presented soon. Despite new allocations and slogans, what happens to a problem-packed, poverty-ridden country like Bangladesh is the most important point. Budget comes with a burden of new taxes and an appeal to the people to remain prepared for new sacrifices in order to ensure happiness for future generation?

But no visible progress is done for overall development of the nation. People think, what happens if there is no budget this year? What happens if budget does not contain any slogan for national development? Development shall be ensured in its own way (.)

Generally budget, as we all know, is the allocation/outlay of funds, containing revenue income and expenses and utilisation of the surplus (if any) for earmarked development under Annual Development Programme (ADP). Revenue shortfall is being met from local financing/borrowing. ADP shortfall (if no revenue surplus) is being mainly financed by foreign aid and etc. Budget contains the hope of a nation, highlights, the politico-social commitments of the government and thereby ensure development through a projected/planned way.

But question arises how far the previous budgets were successful in fulfilling the goal of our nation, how far they were beneficial to the overall development of the nation? Will the coming budget be different from the previous ones?

A resume of the previous budgets reveal their biasness for (i) Investment of revenue income in unproductive sector (ii) Increased indirect tax levied on the consumer/buyer and very low direct tax (iii) Increased allocation of funds from revenue sector for government administration. Nearly twelve lakh government officer/employees swallow a substantial portion of revenue income. (iv) Revenue surplus is being utilised for infrastructural development instead of direct productive sector.

Indirect tax constitutes almost 77 per cent of our revenue income. Here tax is being levied on the common masses as inbuilt in the commodity prices where only 23 per cent tax is realised through direct sources. Even a poor man from the street pays some kind of tax but people belonging to the upper notch of the society do not pay any tax.

Not even one per cent of our population pay direct tax.

We also want a budget depicting the struggle of a nation passing through transition and looking forward to future. A budget not to meet the conditions of the donors, but for meeting political commitments, to narrow social injustice, for creation of congenial atmosphere for investment and economic uplift.

So almost over half of our Gross National Product (GDP) remains outside tax burden. Government employees are exempted from payment of tax on their salaries. Even the salaries and perquisite of our president, premier, ministers, members of parliament are not taxed. Moreover, the members of the parliament are allowed to import duty-free cars, thus evading 100 per cent to 300 per cent tax. While a poor man buying a 'wheel soap' is being taxed.

Sources reveal that the new budget is coming with an increased tax of Taka 600 crore. Education shall again enjoy the highest allocation in budget (of course with some of the expenses of other sectors including defence), while agencies like railway, PDB will continue to show deficit on their balance-sheets. Though steps have been declared for reducing system loss in power sector, it would not be implemented unless adequate reward and punishment system along with accountability is being established all over the society.

Reduction of system loss in gas, electricity and water sector by half can alone ensure Taka 750 crore extra income for the government. Thus improving the collection of dues and reducing the system loss shall increase the government's income. Raising tariff rates, which the concerned authority feels the easy way out, is not the answer. Loss in the railway sector can also be reduced by reduction of surplus employees, increasing the use of container service, sale of railway properties held by various vested groups.

Time has come for the government to depict its total plans for the betterment of the economy. When the government tells people to sacrifice, not to indulge in movement for vested interest, it should also ensure that there shall be no unnecessary revenue outlay in the unproductive sector, no increase of tax on the necessary items, people from upper notch shall be taxed properly, tax collection shall be streamlined and ensured, that is economic well-being and future considerations should get priority over political interests for the time being. The government has already ensured Taka 1500 crore revenue surplus through implementation of value added tax (VAT), but it should remember that contradictions in implementation of VAT might influence collections.

Moreover, bad performance and evasion of tax payment by the disinvested enterprises will hamper collection of taxes while it was (tax collection) a sure in the case of public enterprises. It is also true that if the taxes are reasonable there would be less evasion. Taxes are evaded through corruptions. In this regard a fresh home work has to be done on the existing tax law of the country as well as new areas of taxation should also be identified.

Observers confirm that government could collect only 25 per cent of income taxes i.e. direct taxes and 50 per cent of indirect taxes. The balance, as it is more or less established, becomes 'system loss' — shared among corrupt officials, middle men and the assesses. Income tax is being evaded by declaration of losses or under statement of profit. In order to offset such trend, observers feel that the government should charge minimum tax on companies at 0.5% of its declared turnover from all sources based on the audited profit/loss account even if it incur losses.

This as expected shall increase the contribution to national exchequer by Taka 200 crore. Besides, to broaden the tax base and establish accountability all government employees should be brought under the income tax law (including submission of wealth statement to monitor or fathom their accumulated resources inconsistent with their known source of income).

A resume of the previous budget also revealed that emphasis on agricultural development is reducing gradually with an increased emphasis on infrastructural development. So the productive sector gets neglected, which is obviously not expected.

Negligence for the agriculture sector is also hampering performance in the poverty alleviation drive. So-called subsidised credit programmes have failed to reach the poor. A serious effort to reduce poverty also means giving top priority to the expansion of social services to reach the poor in four key areas: primary health care, family planning, nutrition and primary education. The fact is precious little has been done.

Though heavy allocations were made for family planning, the net result is not encouraging in comparison to the investment in this sector. Primary health care and education are discouraging in the rural areas. So the budget should highlight specific policies to improve the participation of the poor in growth by increasing their access to land, credit, education and public infrastructure.

Newspaper sources reveal that the concerned ministry has already obtained a copy of Indian present budget to have a look in it. This time the Indian budget endeavoured to contain the new hopes of a nation passing through transition. As Mr Jamaluddin Ahmed renowned chartered accountant put it that everybody had some thing to say about the budget.

We also want a budget depicting the struggle of a nation passing through transition and looking forward to future. A budget not to meet the conditions of the donors, but for meeting political commitments, to narrow social injustice, for creation of congenial atmosphere for investment and economic uplift.

Europe's Single Market Threatened by Bananas

Hilary Clarke writes from Brussels

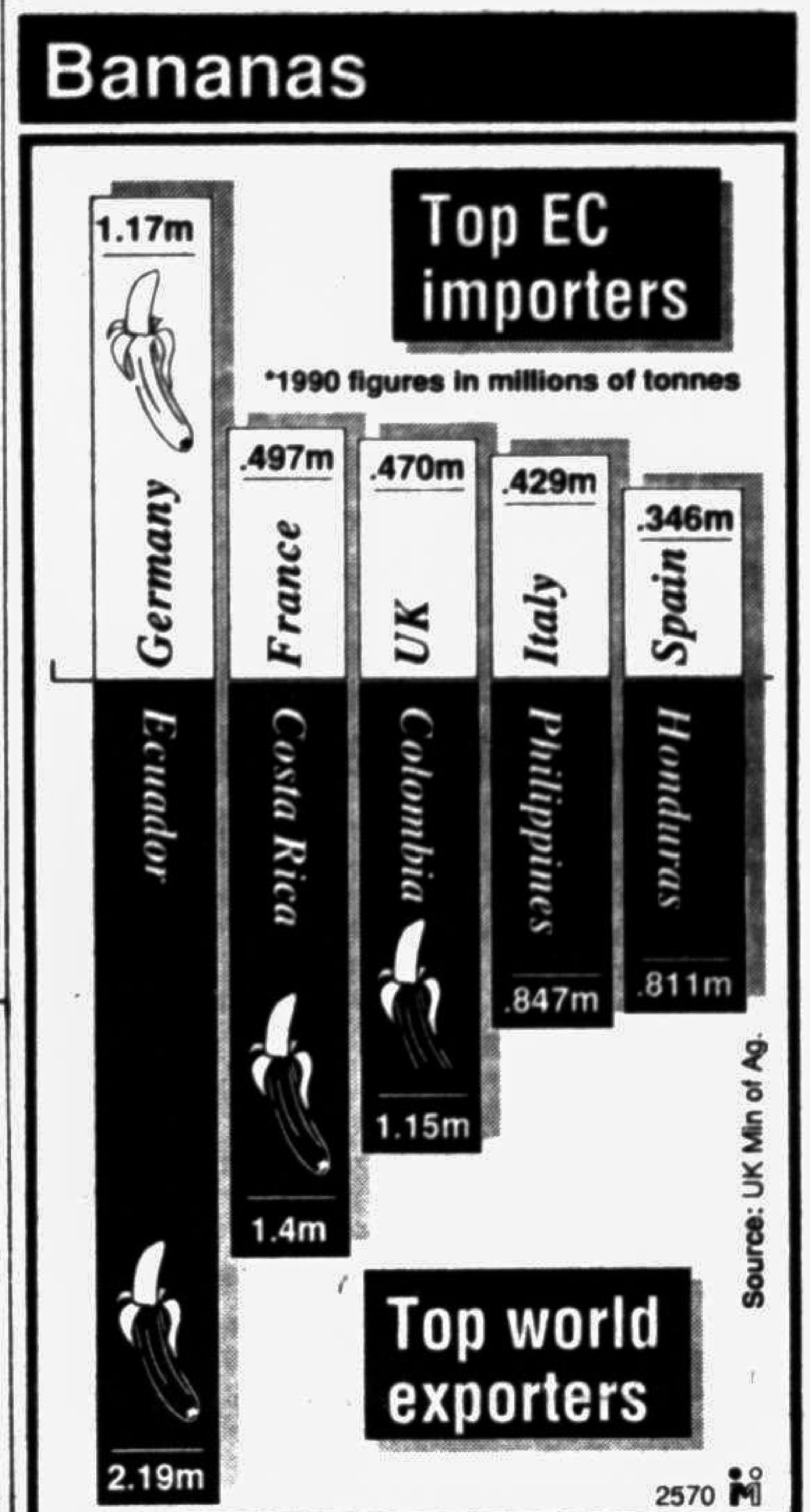
BANANAS could be one of the biggest obstacles to creating the European Community's single market at the end of this year.

For more than four years, EC officials have been trying to agree on a way to free up the market for Europe's favourite fruit, but they seem to be stumped.

The Eurocrats have a complicated dilemma that pits old colonial ties against market forces, and development obligations against the interests of the European consumer. They must unravel a complex system of banana protocols, tariffs, quotas and bilateral accords between EC countries and their former colonies in the African, Caribbean and Pacific nations (ACP).

Germany, Denmark, Ireland, and the Benelux countries of Belgium, Luxembourg and the Netherlands, import most of their bananas from Latin America, which account for more than half of all banana imports into the Community.

These bananas are generally smaller, have darker skins, and are cheaper. They are also in increasing demand from consumers in the former East Germany, who are discovering the previously rare delights of banana flesh.



Germany is allowed to import bananas from Latin America with zero or low tariffs, subject to certain quotas, because it had no colonies when the EC's constitution was signed in 1957.

Britain gets bananas from its old territories in the Caribbean, which established plantations after World War Two. A shortage of hard currency made it difficult to buy bananas from outside the country.

The industry in the Commonwealth Caribbean countries has since been supported by preferential access to the British market.

This allowed the industry in the Windward Islands of St. Lucia, Dominica, St. Vincent and Grenada to do well, despite the hilly landscape and comparatively high labour costs.

When Britain joined the Community in 1974, a special provision was made to protect Caribbean suppliers to the UK.

Bananas make up 90 per cent of the islands' exports, earning nearly $10 million from Britain and providing half of their gross domestic product.

Most of France's bananas come from its former colonies in Madagascar and West Africa, especially Cameroon and the Ivory Coast. But with overseas territories in the Caribbean islands of Guadaloupe and Martinique, it is also a banana producing country itself.

The other EC banana producers are Spain's Canary Islands, the Greek island of Crete, and the Portuguese island of Madeira. Italy has a special agreement with Somalia for its bananas, importing them at a very low tariff, although war in Somalia has drastically limited its banana exports.

The other Caribbean ACP countries, Jamaica and Belize, have lower production costs, but still not low enough to compete with the Latin American fruit. Latin America has unlimited land resources, cheaper labour and better access to technology.

Now the ACP and European banana producers are worried that when the EC's internal barriers are dropped next year, Latin American bananas will swamp the European market, squeezing out the less competitive African, Caribbean and European brands.

The EC has promised to come up with a formula that will satisfy everyone. EC and ACP producers, who supply almost half of all Europe's bananas, want a quota on banana imports from other sources.

Latin America, however, is backed by the powerful Germans, who want to import the cheapest fruits possible. They are lobbying hard against the ACP proposals.

"The Latin American countries are trying to fight against quota impositions on Latin American bananas so they can increase their exports to European countries," says Luis Carlo Jiminez, of the Belgian firm Banana Marketing, which imports Latin American bananas.

"They don't mind taxes, as long as they are reasonable."

Those countries export about 2.8 million cartons of the fruit to the EC every week.

Charles Savarin, ambassador in Brussels for the Caribbean island of Dominica, is fighting just as hard for maintaining the quotas.

"What we want is some market protection to give us time to improve our banana industry and make it more competitive," he said.

There seems little chance of persuading Caribbean farmers to grow other crops — bananas have been very profitable in the past — despite the now-threatened profit from special market treatment.

"If the EC was to practice free competition in cereals, for example," said Savarin, "Argentina, Canada and Australia could all outprice European producers.

"The EC pays subsidies from its Common Agricultural Policy to keep farmers on the land. It should therefore be able to heed our wishes for safeguards for EC and ACP banana producers." — Gemini News

(Hilary Clarke is a freelance journalist, living in Brussels, who formerly worked for the Asian Herald.)

Business Gets Going in United Germany

by Dieter Dollken

HAMBURG is second only to the German capital and future seat of government — Berlin — when it comes to benefitting from German unification 18 months ago and its effect on the geographical situation, economic structure, industry and commerce and transportation links to all points of the compass.

Evidence of this is seen not only in the economic statistics of the past couple of years but also the outward appearance of the great port city, which is in the throes of an unprecedented building boom. Hamburg has moved from 10th to seventh spot on the list of the world's main container ports.

Previously on the remote northern fringe of the old Federal Republic of Germany, today's Hamburg — population 1.7 million — has been swift to embrace its new role as a hub of activity linking central, northern and eastern Europe with maritime connections to all points on the globe.

An important part in this has been played by the recovery of the historical hinterland of Mecklenburg, in the north of the former GDR. The opening-up of eastern Europe in the Baltic region, up as far as St. Petersburg and the Baltic republics, brings Hamburg visible advantages, as does the reactivation of existing inland shipping along the Elbe into the Czech and Slovak Federal Republic.

The city-state and its business community have abandoned their modest claim to northern excellence and reinstated Hamburg's old claim to be the "Gateway to the world", with the sub-title "Eurogate".

So great is the pressure of new business that Germany's northern neighbour Denmark is calling for urgent improvements in transportation links in northern Germany to avert foreseeable bottlenecks. But the planners are already meeting resistance from environmentalists determined to see to it that the landscape doesn't suffer.

Their particular attention focuses on a mammoth project to establish the "Transrapid" suspended magnetic railway connection between Hamburg and Berlin by the year 2000. The project, at current estimates costing some 7,500 million DM, entails use of trains capable of speeds of up to 400 kph, moving an annual 16 million passengers between two of the main German industrial regions in journies lasting only one hour. Supporters hail it as an "Environmentally friendly alternative to short domestic flights".

Hamburg expects to surpass the average economic growth rate for Germany in the coming years; its expansion rate last year alone was four per cent. The forecast was made by Economics Senator Hans-Jurgen Krupp.

Last year, the turnaround of goods in the port of Hamburg rose by 11 per cent over the previous year to a record 65.6 million tonnes, 71 per cent of this in containers. Port authorities reckon the turnover will double by the year 2000 and that there will be a leap in container movements. Last year, 2.25 million containers were handled — a 14 per cent rise over 1990.

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This automatically prompts demands on the city-state's economic policy. Over the next 10 to 20 years, priority will be given to port development, the creation of industrial real estate, the transportation infrastructure and high technology.

Last year, Hamburg invested around 240 million DM in the port alone, and the same amount will be allotted in 1992. The port business community say some 5,000 million DM will to be invested between now and the year 2000. Port roads will be developed and sections of the harbours filled in to create new ground for industrial and commercial development. Professor Krupp commented : "Hamburg needs new land in the port area if it is to consolidate and expand its role as the main North Sea port for Scandinavia, the new federal states and the new market-economy countries of central and eastern Europe over the long term".

The expansion of what the local media refer to as "boomtown Hamburg" is also making itself felt on the employment market; last year, an all-time record 795,000 persons were in employment, with the high level of economic achievement bringing the biggest drop in unemployment in 30 years. Some 35,000 new jobs were registered in 1991 alone, particularly in the services, aircraft construction, machinebuilding and electro-technology sectors and in the port of Hamburg.

Lack of housing is impeding further growth in employment. Some firms are coping by bringing in busloads of workers every morning in journies sometimes taking several hours from outlying regions of the new eastern federal states, then ferrying them back home in the evening.

A survey among 1,300 Hamburg firms in 11 branches at the beginning of this year showed that well over half of them were planning to hire more personnel in 1992, particularly in insurance, other service sectors, inland wholesale, hotels and catering, transportation, banks, the retail trade, import and construction.

The Hamburg Chamber of Trade forecasts "outstanding prospects for business in the East" and notes that Hamburg is well equipped to profit from the incipient upswing in East-West economic relations.

A highly favourable geographical position, export know-how and other local qualities are among the "trump cards".

A report by the trade chamber goes on : "In the medium and long term, the political and economic changes in the East hold promise of fascinating consequences but call for a completely new field of activity, initially in the form of major preparatory work and investment".

Bangladesh was a participant at an International Round Table held in Berlin to take an in-depth look at World Bank strategies to reduce poverty. Entitled "Assistance Strategies to Reduce Poverty : The World Bank Approach," it was organised by the Development Policy Forum of the German Foundation for International Development (DSE) and the World Bank and drew some fifty ministers and officials from governments and international agencies around the world. Seen during one of the sessions are Bangladesh's delegate Atiur Rahman (right) and Ms Yolanda Kakabadse, a United Nations official. — Photo : INP

Autonomy for Indian Banks

by Rajendra Singh

ONE of the biggest drawbacks of the Indian banking system is its lack of operational flexibility. Almost every operation is subjected to some statutory control or government guideline, such that even administrative matters are no longer considered to be within the purview of internal management.

This has in effect killed initiative and narrowed down the options available to both borrower and depositor. Worse still, politicians and bureaucrats are known to misuse their powers and exert undue influence on day-to-day decisions on loans and credit granted to clients.

Now, competitive and dynamic banking demands a fair degree of flexibility in the decision making processes, subject to certain norms and safeguards. These are designed to check irresponsible lending, improve the internal strength of the institution and ensure profitability in a manner that the banking sector is able to meet the changing needs of the economy.

That over-regulation can be counter-productive was recently highlighted in the Narashimham Committee report. In emphasising the need for greater functional autonomy to banks, the Committee called for "depoliticising appointments" on the banking boards and ensuring "security of tenure" for chairmen.

In 1969, when banks were nationalised, the principles enunciated by the Government stressed that all appointments would be based on professional merit. However, over the years, appointments came to be made on the basis of services rendered or favours expected. Its effect on the health of the banking system began to be noticed soon afterwards.

In 1969, when banks were nationalised, the principles enunciated by the Government stressed that all appointments would be based on professional merit. However, over the years, appointments came to be made on the basis of services rendered or favours expected. Its effect on the health of the banking system began to be noticed soon afterwards.

In the opinion of economists and financial experts, autonomy of banks has to be closely linked to accountability over performance. Such autonomy should cover aspects of internal management such as recruitment of personnel, institution of a system of rewards and punishment and, more importantly, decisions relating to micro-credit and investment as well as geographical expansion.

Similar sentiments were echoed by the noted economist and former Governor of the Reserve Bank of India, Dr I G Patel while delivering the valedictory address of the meeting of the associate Chambers of Commerce and Industry in New Delhi on September 24, 1991. He also stated that the economic reforms announced by the Government would not produce the desired results if political considerations were allowed to influence fiscal processes.

The Central Finance Minister Dr. Manmohan Singh, has also gone on record as stating that "over-centralisation and excessive bureaucratisation have proved to be counter-productive". In his view, the financial system in the country has developed certain "rigidities and weaknesses" that need to be urgently addressed by ensuring greater competitive efficiency and operational flexibility.

This is in keeping with the postulate of the M C Kinnon Shaw-Maxwell Fry hypothesis : "Excessive intervention in the financial system leads to financial repression and comes in the way of financial intermediation."

According to the Narashimham Committee, regulations for the banking sector, if any, ought to be framed only by the RBI (Reserve Bank of India) and not by a multiplicity of government bodies.

From time to time the relevance of the guidelines may be reviewed by an independent body with a view to ensuring greater independence and autonomy of banks. The reviewing authority could be a quasi-autonomous body set up under the aegis of the RBI, but which would be separate from its central banking functions, suggests the Committee.

While this would ensure efficient functioning in a market-friendly environment, banks need also to inculcate a culture of self-dependence that would help create a sense of primary responsibility. For this, due emphasis has to be placed on internal audit and inspection, as suggested by the Narashimham Committee report.

RBI Governor S Venkitaramanan disagrees with the recommendation that the supervisory function of the RBI should be delinked from its regulatory function. According to him, it is crucial to conduct "on-site supervision", rather than "off-site regulation".

The complexity of functions in the banking system also demands that the sole responsibility for the profitability and efficiency of banks must rest upon their managements. The latter ought to be able to adapt to changing conditions and innovate strategies to steer through crisis situations which might place serious strains on bank profitability.

Such strains might arise out of policies prescribed by authorities outside the ambit of the banking sector, weaknesses in the judicial system and what may broadly be referred to as "environmental stress".

However, it is crucial to ensure a right balance of autonomy and accountability. As the National Confederation of Bank Employees (NCBE) has argued, "accountability without autonomy is tyranny and autonomy without accountability is anarchy."

The Narashimham Committee has also urged the liberalisation of rules for the operation of foreign banks in India.

Should this happen it would infuse a degree of competition in the banking sector. And in order to meet this competition, public sector and other bands would have to improve their services and performance.

It has been emphasised time and again by professionals that there can be no substitute for competition for the development of the banking industry.

However it is also a fact that competition by itself does not promise to bring in efficiency, productivity and profitability; what is also necessary is that the banks be allowed to frame their own policies and introduce their own systems for better development and management. — (PTI Feature)

Mr Rajendra Singh is a writer on economic matters, based in Lucknow.