

## Containing inflation

### The challenge ahead

**T**HERE is an apprehension that the increased outlay for annual development programme (ADP) for fiscal 2005-06 and the projected government spending for the new pay scales could push the inflation rate up. Set against this backdrop, the Economic Reporters Forum meet with Bangladesh Bank Governor Salehuddin Ahmed on Monday, reverberated with words of optimism interspersed with a recipe for keeping inflation in check.

The size of the ADP for the new fiscal year is a good 20 percent bigger than that of the last year's, and contain as it does 516 new projects in the unapproved category, the new ADP has given rise to a concern that these might have been earmarked to accommodate the wish-lists of ruling party ministers, MPs and probable candidates for the next election. As it is, the difference between the original and the revised allocations for the ADP, 2004-05 speaks for itself. In the revised version there is an increase in spending on projects that have election appeal at the expense of projects earlier envisaged for social development.

The new pay scales, which though thoughtfully have staggered payment schedules, would nonetheless create some inflationary pressure largely because of a speculative orientation to trading. Even if we set the pay-raise aside, one thing is for sure which is that the latest increase in the fuel prices will create cost-push inflation.

The Bangladesh Bank governor has cited some counter-vailing factors likely to enable a degree of positive management of deficit financing which is considered vital for containing inflation. The central bank has given us to understand that of the projected budget deficit of 4.3 percent of the GDP as much as 2.4 percent is expected to be financed from foreign sources such as the World Bank and the IMF, to mention the larger ones.

To look inward, the boro crop and other rabi harvests have come good. But the must-do-list for reduced deficit financing and inflation is pretty long. The unproductive expenditures which are raring to be made in the penultimate year to election with a high corruption premium will have to be guarded against. Expenditure control is key to safe deficit financing. Revenue collection will have to be radically improved in a context where taxes cannot be increased without having to pay a political price for it. Finally, the government's borrowing from the banks should be kept within safe limits.

## MP hostel for whom?

### Should only be used for the purpose it is meant

**W**HATEVER the perks and privileges our members of parliament enjoy, these are perhaps more than a poor nation like ours can afford. Regrettably, some of the services provided to them are often misused and some remain unpaid for a long time, like telephone bills, for which the MPs are allowed a monthly allowance. It is interesting to note that if there is unanimity on the floor of the House amongst the MPs cutting across party lines, it is on their additional perquisites.

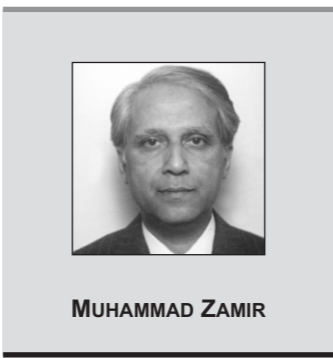
It is disconcerting to learn about new instances of misuse of the facilities provided to the exalted members of our parliament. Some of the accommodations provided in the MP Hostels are being used, it is learnt, not by themselves but, in some cases, the members of the parliament are allowing their personal staff of various definitions to live in those accommodations.

We are given to understand that these accommodations are primarily for those MPs that don't have a place to stay in Dhaka while the parliament is in session or when an outstation MP is in town on official business. We fail to understand why, in the first place, MPs having houses in the Capital should have the use of MP accommodation at the Hostel. Why a place for living should be used as an MP's office is something that is also beyond our comprehension. While one does not discount the fact that the MPs do need appropriate offices to function, surely the use of the MP hostel, as an office, is a very bad alternative. We are constrained to remark that some of our members of the parliament may be under a false impression that, having been elected to the highest elected forum, their conduct thereafter is beyond reproach. Such acts only portray them in poor light.

We feel that, like the house of parliament the MP hostel is naturally vested with dignity, which all concerned must uphold. Nothing that the MPs do should harm their image, which should be impeccable at all times.

Hostels accommodation once provided to an MP must be used exactly for the purpose it was done.

# Impact of France's No to EU Constitution



MUHAMMAD ZAMIR

**T**HE French, through their recent referendum on the draft EU Constitutional Treaty have demonstrated that they are more French than European. All of a sudden, the European dream has assumed difficult prospects.

President Chirac, speaking after the decisive and definitive 55 per cent 'Non' vote has remarked that it 'will be pretty difficult now to protect French interest in Europe'. This is probably an exaggeration but it has definitely been a shocking wake-up call. This referendum has also signalled that the French you want a Europe based more on social justice rather than just trade and market access.

The interesting aspect is that the French government failed in their efforts despite open support from Germany and its Chancellor. In fact, Germany became the ninth country to ratify the draft EU Constitution on 27 May two days ahead of France. Germany had followed Austria, Greece, Hungary, Italy, Lithuania, Slovakia, Slovenia and Spain.

A ranging political debate has now emerged in Europe about the ratification of the proposed Constitutional Treaty (CT). Sides have been taken by different political scientist about the practical consequences that might result, if the CT is rejected. It is now almost certain that Netherlands will also vote 'no' in their referendum.

Rejection of the Treaty by even one member of the EU makes things quite uncertain for some of the provisions within the EU related to the social dimension. It will also strengthen the determination of the majority of the centre-right and conservative EU governments and Eurosceptic countries to weaken its democratic and social content even further. They will now ask for a new round of negotiations. Questions will also be asked afresh about the European Union decision making process and the Union's democratic policy. Many will want clarifications as to how the EU will continue functioning under the provisions of the current Nice Treaty.

I have tried to analyse below the complex scenario that will come into

place and the factors that will impact on the EU mechanism. The analysis takes into account various aspects of EU governance.

The first element to be affected will be the principle of voting. The new simplified system of decision by double majority in the Council of Ministers will not enter into force. The Nice system, which is far more complicated, will continue to adopt decisions on the basis of more than 72% of votes, consistent with the principles of Qualified Majority Voting (QMV). The Constitution, on

grind to a complete halt.

Without ratification, the Charter of Rights will also not acquire binding legal value. It will not be enforceable when EU institutions or Member States applying EU law, breach the fundamental rights included in the Charter. As a consequence the foundations of a common European citizenship will be weakened.

It will also impair the competence of the European Court of Justice notably in areas under Justice and Home Affairs and in the guaranteeing of the rights and freedoms of

This will in turn affect transparency in decision-making within the Union. This is important because the Constitutional Treaty provides for national parliaments, the media and public opinion at large to be able to follow closely who votes for what, thus dramatically enhancing the accountability of Member States' representatives in the Council. If this is lost, the already worrying distance between EU institutions and European citizens will only become wider.

Another factor will be that national parliaments will not be involved in controlling subsidiarity -- i.e. having an

mean that the proposed European Union Foreign Ministry will also not be established. Considering the vital importance of the European Union speaking with one voice and having an effective influence in world affairs, the loss of the proposed Foreign Minister and the proposed European External Action Service (EEAS) would also send a wrong signal to the rest of the world.

It may be recalled that the Constitution foresees a 'double-hatted' EU Foreign Minister, who will chair the CFSP Council, be a Vice-President

ation outside the treaties -- but without serious checks and balances -- with serious divisive effects within the Union.

The goal of enhanced economic governance would also be pushed further away, with potentially serious repercussions for the cohesion and strength of the single currency area arising out of a bewildering array of decision-making instruments that would impact on simplification, transparency and efficiency.

Another significant loss will be the distribution of competences -- or decision-making authority. Unfortunately, this will not be clarified. The Constitution establishes, for the first time ever, a classification of competences. Exclusive competences of the Union competences shared with the Member States and areas in which the Union can act to support the action of Member States are listed in a clear and comprehensive fashion. Confusion over who will be responsible for what decision might eventually contribute significantly to a loss of popular support for the Union.

Another area that needs to be mentioned is that without a permanent Constitution, the Union will not acquire a single legal personality. Consequently, its ability to sign international treaties would be questionable. This would further weaken the international standing of the Union.

The absence of a Constitution will also mean that there will be no permanent Chairman of the European Council. Establishing this office is vital for ushering in visibility and continuity in the Council machinery. Without the Constitution, the current rotation system for the Presidency will be retained and European priorities will continue to reflect national concerns and shift every six months. This most Member States agree, is an anachronism.

There is no denying that the Constitution remains a highly complex body of legal texts. However, it is also clear that the European Union urgently needs the modernisation and reform of its decision-making structures and processes. This can only be achieved by unifying all previous treaties into a single text and rationalising the result of decades of integration treaties. It will make the Union more understandable and practicable for its citizens and its external partners.

Muhammad Zamir, a former Secretary and Ambassador, was also Permanent Representative to the EU -- any response to mzamir@dhaka.net



citizens. These improvements would be forfeited should be Constitution not be approved.

The European Parliament will also not expand its powers as equal co-legislator with the Council of Ministers in important areas of direct concern to the ordinary European citizen. This will include police cooperation and criminal justice cooperation and the whole EU budget (including so-called 'mandatory expenditures, i.e. in practice the agricultural budget).

This will not only work against the strengthening of the European Parliament but will also weaken the ability of citizens to exert full democratic control on action taken by executive power at the EU level.

important influence in ensuring that only appropriate decisions are taken at the European, as opposed to the Member State, level.

The Constitution, it needs to be remembered, establishes a procedure whereby a third of all national parliaments may ask the Commission to revise a draft they consider in breach of the subsidiarity principle. This procedure has been brought in to ensure that all draft pieces of EU legislation are really examined closely by national parliaments thus enabling them to exert more effective control on the position their government will take in the Council of Ministers.

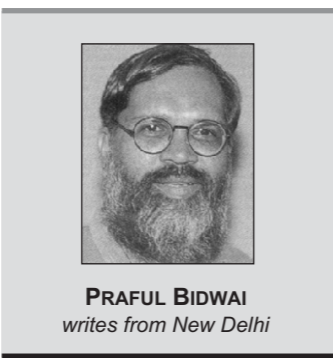
Not ratifying the Constitution will

of the Commission, represent the Union abroad and head the EEAS (in effect, the core structure of a future European Foreign Ministry). Without the Constitution, a powerful tool for strengthening the Union's foreign policy would be lost. At a time of serious global challenges, a missing Constitution will mean risks and a negative impact far beyond the borders of the EU.

Inability to ratify the Constitution will also mean that structured cooperation in security and defence policy will not be set up within the Treaty framework. This will also apply to the European Armaments Agency. This loss might well lead to closer security and defence cooper-

# Dissolving the Bihar Assembly

## Move is ham-handed, not vile



PRAFUL BIDWAI  
writes from New Delhi

**W**AS it an anti-democracy coup, or a move to prevent horse-trading which mocks at democracy? It's not easy to take black-and-white positions on the Bihar Assembly's dissolution. Arguments on both sides have merit.

Yet, the way the United Progressive Alliance handled Bihar is likely to be seen as tactless and ham-handed. This might give the shrinking National Democratic Alliance a small, undeserved, shot in the arm.

Supporters of the Assembly's dissolution claim that Bihar witnessed terrible horse-trading in violation of the popular mandate.

The mandate was fragmented between three blocs within the 243-member assembly: Rashtriya Janata Dal-Left (79 seats), Janata Dal (United)-Bharatiya Janata Party (92 seats), and Congress and Dalit leader Ram Vilas Paswan's Lok Janashakti Party

(39 seats).

The worst culprits in the horse-trading were LJP MLAs, mostly upper-caste goons. They had no loyalty to Mr Paswan, and were elected because of their opposition to Mr Laloo Prasad. They were always ready to defect.

Mr Paswan first refused any truck with the RJD or the BJP (although he played footsie with the latter). But his MLAs cut a deal with the JD(U). After several MLAs

the Bommai case, which says it: "is not a matter of course. It should be resorted to only [when] necessary."

The move, claims the NDA, was typical of the Congress's past conduct in scuttling Opposition-led governments.

All opponents of dissolution don't carry the argument to its conclusion by demanding it be reversed.

NDA chairman Atal Behari Vajpayee only wants Assembly elections held "as soon

mation, Mr Paswan paraded 10 LJP MLAs. He also claimed the support of four MLAs who are in jail. By all accounts, Mr Kumar had the support of 13 to 15 MLAs.

But this wasn't good enough: the anti-defection law requires two-thirds of a party's MLAs to form a separate group to avoid disqualification. Mr Kumar showed himself weak on numbers. When asked by the press on May 22 to give a break-up of his support-base, he

hostility that Mr Laloo Prasad evokes among the middle classes and sections of the media. He represents the self-assertion of the underprivileged in a uniquely emphatic way, which annoys the elite. The elite believes he's an interloper.

Similarly, the UPA underestimated the degree of sympathy the BJP and the NDA still enjoy in many newspapers and magazines. Above all, it underesti-

state governments.

For the BJP, democracy and the Constitution are *instruments*. In 1998, it tried to alter the Constitution's *core* by ushering in a highly centralised, unitarian, presidential system.

What happens in Bihar will probably be decided by a legal challenge to the dissolution. This is a thorny issue because of the messy Assembly and confusion over the Constitution's 10th Schedule. Under the Schedule, the power of deciding on defections lies with the Speaker. But the Bihar Assembly has no Speaker!

Therefore, the courts will probably step in. They must tread carefully and not repeat what they did in Jharkhand, when they converted a *conditional* clause into a definite ruling: "If the averments of the petitioner are correct, then [the Governor's action] ... is a fraud on the Constitution." The "if" is *all-important*. The Supreme Court made this harsh indictment *without* determining the truth of the allegations.

The next elections' mandate may be different if the RJD can properly ally with the Congress and Left -- unlike in February, when the Congress went with the LJP. Much will also depend on whether the RJD can recoup its own vote, which has eroded by a third.

Recovering the old base may not be easy for the RJD. But can NDA do any better?

Praful Bidwai is an eminent Indian columnist.

The next elections' mandate may be different if the RJD can properly ally with the Congress and Left -- unlike in February, when the Congress went with the LJP. Much will also depend on whether the RJD can recoup its own vote, which has eroded by a third. Recovering the old base may not be easy for the RJD. But can NDA do any better?

were spirited away into BJP-ruled Jharkhand, he suddenly offered to ally with the RJD.

Dissolution, its supporters argue, was the only way to prevent artificial, unrepresentative, and *undemocratic* outcomes. The UPA acted in good faith. At any rate, the decision needs Parliament's sanction.

Now, consider the anti-dissolution argument. This holds that the UPA acted in unseemly haste -- getting President Kalam to sign the proclamation in Moscow in the middle of the night -- because the NDA was mustering an Assembly majority by drawing in independents too.

This assumption is open to question. A day before the procla-

as possible." They also miss the point that President Kalam, no putty in UPA hands, was sounded on dissolution in advance and consulted legal advisers.

Equally important, the dissolution cannot take effect until Parliament approves it. The action is *not* irreversible, nor a *fait accompli*.

One crucial assumption which dissolution's opponents make is that two-thirds of the LJP's 29 MLAs were about to join hands with the JD(U)). This would have enabled it to stitch together an Assembly majority by drawing in independents too.

This assumption is open to question. A day before the procla-

raised to 65 percent, as follows:

No income tax on income up to Tk 1,50,000; income tax at the rate 10 percent on income from Tk 1,50,001 to Tk 4,00,000; at 15 percent on income from Tk 4,00,001 to Tk 7,00,000; 20 percent on income from Tk 7,00,001 to Tk 10,00,000; 25 percent on income from Tk 10,00,001 to Tk 14,00,000; 30 percent on income from Tk 14,00,001 to Tk 18,00,000; 35 percent on income from Tk 18,00,001 to Tk 22,00,000; 40 percent on income from Tk 22,00,001 to Tk 26,00,000; 45 percent on income

from Tk 26,00,001 to Tk 30,00,000; 50 percent on income from Tk 30,00,001 to Tk 35,00,000; 55 percent on income from Tk 35,00,001 to Tk 42,00,000; 60 percent on income from Tk 42,00,001 to Tk 50,00,000 and 65 percent on income above Tk 50,00,000.

In 1947, and even in 1971, we had a few very rich persons. But now a section of the people has become prodigiously rich while the per capita income of the general mass has increased very little. In our country it is almost impossible to become very rich

without dishonest means. But unfortunately our governments seemed to patronise these dishonest, rich persons by allowing them to whiten their black money without raising any question!

Many of the rich persons of our country have little administrative ability, they threaten their employees almost like surfs, sacking them any time without giving any opportunity to explain their position or even assigning any reason. Our rich people build posh houses, lead a luxurious life, in the name of business avail frequent foreign

trips, and many of them purchase houses in foreign countries and even keep large amount of money in foreign banks. So, we should have little sympathy for them, and a people's government is supposed to fully endorse the suggestion to increase the maximum rate of income tax to 65 percent on income above Tk 50,00,000.

Mohammad Mujibur Rahman is a retired collector of customs.

# Should income tax on agriculture be increased?

MOHAMMAD MUJIBUR RAHMAN

**W**HILE watching BTV news at 10pm a few days ago, I saw Khairuzzaman Chowdhury, Chairman, National Board of Revenue, expressing the government's desire to increase income tax on agriculture. According to him, agriculture constitutes 30 percent of the economy of our country, but income tax realised from agriculture is nil. Therefore, the government intends to devise ways and means for procuring

some income tax from this sector.

It is not correct to say that under the existing income tax act, no income tax is at all realised from agriculture. Under the present income tax provisions, income solely derived from agriculture is exempt from payment of income tax up to Tk 40,000 only. This means income from agriculture exceeding Tk 40,000 is liable to income tax. Again, if a person's income is partially derived from agriculture, his extirpe amount of income is assessable to income tax. For example, say a person's income from agriculture is Tk

30,000 and his income from house rent in Tk 90,000, then he is to pay income tax on Tk 90,000+Tk 30,000= Tk 1,20,000. This is simply not just.

The agriculturists of the western countries are by far richer than our agriculturists. Yet these countries, especially the USA, are giving huge subsidies to the agriculturists. Therefore any attempt to increase the existing income tax on agriculture by lowering the said taxable limit of Tk 40,000 will be unreasonable, inane and unkind to the agriculturists of our country.

If the government is so adamant as to increase revenue by way of income tax, it should explore other avenues, which will be more plausible and justifiable. One such avenue will be to increase the existing income tax rates. It may be recalled that before independence in 1971, the highest rate of income tax as far as I remember was 14 annas in a rupee or 87.5 percent, which has been reduced to 25 percent at present. So, in order to reduce the income gap between the rich and the poor of our country, the maximum income tax rate may be

## OPINION