

## Cost of Political uncertainty

*It is incalculable*

**W**e cannot agree more with the business leaders that the major impediment to achieving a higher rate of annual growth is the turmoil engendered by the political situation in the country.

It was not surprising that, notwithstanding the snag in infrastructural support, political uncertainty happens to be the most serious concern of the business community, because in the long run it enhances the cost of doing business. And that is why it is important that the government addresses this concern in right earnest.

It cannot be good news that investment, both foreign and domestic, has been discouraged by the looming uncertainty; neither can be anything more disheartening to know that business has been hamstrung when banks hesitated to fund projects because of the same reason. It affects too the RMG sector, only more so, and the fact that there is suddenly a fall in inflow of order from international buyers can only be blamed on the political situation in the country.

It will do well for both the government and the opposition to realise the serious consequences that the country is proceeding towards due to not only the intransigence of the two major parties but also their inability to grasp the consequences of the outcome of the position that they have assumed.

We would urge the government and the opposition to ensure that nothing happens that would hamper the country's external trade, or which impedes productivity. The capital market is only recuperating from the shock it received very recently which resulted in liquidity crunch, and one would not like it to be affected by political unrest nor would one like to see the daily wage earners as well as the fixed income group to suffer due to price shock that is only inevitable from political disorder.

The message for the government and the opposition is clear, ensure political stability. However, we want to clearly emphasise a more proactive role from the government to engage the opposition in bringing about stability.

## Violence at RU

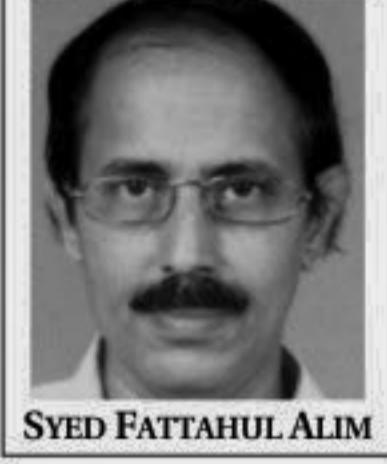
*Go into roots of criminality*

**T**HE sheer spectacle of the deadly weapons recovered at Rajshahi University the other day provides a glimpse into what could be happening on other campuses across the country. Observe the haul. There are machetes, axes, swords, scythes, hockey sticks, knives, chains, iron rods and hammers. All of these were recovered in the aftermath of a clash between two Chhatra League factions from the residential quarters of the students. Of course, it is nothing new in the recent sordid history of student politics. Other student organisations too have had, indeed have, the very weapons which the authorities at RU have now stumbled upon. The question which now must exercise minds, both in official circles as well as among the general public, is simple: how do student organisations come by such weapons of murderous intent?

The answer is again a simple one. There are certainly links in a chain of criminality which have regularly contributed to a degeneration of the academic atmosphere on campuses throughout the country. It is just that no serious efforts have been made to break those links or even to bring recalcitrant student political activists to account. In the case of this latest incident of a factional clash among BCL workers, strong police action was called for. Of course, a couple of arrests were made. But when there are clear photographic images of BCL activists roaming around in search of their rivals, the aim being to pounce upon them in all the violence they can muster, it becomes the responsibility of the police administration to take swift action. Dispersing violent youths through baton-charging them is not enough.

The proctor of RU has promised action on the incident. Let that action be all encompassing. While action is taken against those in whose possession the sharp weapons were found, let its scope be widened to net those who have supplied these weapons to the students. The roots of the violence must be gone into.

# Courting black money



**S**YED FATTAHUL ALIM

**T**HE provision of whitening black money has not been abolished even in the proposed national budget for FY 2011-12. What is the rationale for whitening black money? During the presentation of each budget since independence, the common argument given in favour of whitening black money has been that the money would benefit the economy.

How would the benefit come about? Well, the expectation of the government every time that such generosity was shown towards the holders of undeclared or untaxed money was that the latter would invest their money in the economy. Has the government ever assessed how far the whitened money contributed to the economy?

Before answering the question, let us take a short detour into the history of legalising undisclosed or black money.

It was in the 1975-76 budget that the provision of giving legal seal to black money was first introduced. The object of the then government was to bring some Tk.700 billion worth of black money into the formal economy. But at the time, only around Tk.70 million or a mere .001% of the entire amount could be brought under the category of taxed money. That means that a few black money holders took hold of the opportunity. The government's dalliance with the black money went on unabated from one financial year to the next. Through this manner, in FY 1987-88, FY 1988-89 and FY 1989-90, the government's leniency towards black money brought Tk.2 billion, Tk.2.5 billion and Tk.4 billion respectively into the formal economy.

The provision was again started in the FY 2000-01 by the Awami League

government. This time an amount of Tk.10 billion of black money was converted into legal money. In a similar fashion the Bangladesh Nationalist Party (BNP)-led government re-introduced the policy for only 2 years in FY 2003-04 and whitened Tk.17.75 billion in the process. The windfall year for the legalisation drive came at the time of the last caretaker government in 2007-08 when some Tk.100 billion worth of black money was legalised. In fact, it was the fear of harsh punishment by the military-backed government that was behind the unprecedented response from the black money holders.

But the response tapered off soon after the Awami League-led civilian government took office in 2009. The finance minister in his budget of 2009-10 again allowed the black money to

covering big infrastructures such as power and energy projects. The condition was again a payment of a nominal tax at a 10 percent flat rate. It was further stated that no question about the source of the money would be raised.

Unfortunately, the response to this call was minimal. To think that the black money holders have remained so blasé about the government's good overtures! Even continuous cajoling of the government did not succeed in softening their mind. So what? The government proved to be an unmitigated optimist when the finance minister AMA Muhih retained the provision even in the proposed budget for FY 2011-12. The conditions remained unchanged this time again. That is, the investments have to be made in the BIFF projects or in Treasury Bonds at a

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come into official circulation in the hope that the government would be able to release between Tk.150-Tk.200 billion with the incentive of a token 10 percent tax on the amount of black money declared by its owners. The condition was that the investments would have to be made in the prescribed 62 sectors belonging to three categories: Industry, share market and purchase of apartments as well as Balancing, Modernisation, Rehabilitation and Expansion (BMRE) of the prescribed projects. That opportunity had been created under the Finance Bill 2009. However, in FY 2010-11, the "62-sector whitening" opportunity was withdrawn and the facility of legalising black money was allowed only under the Bangladesh Infrastructure Finance Project (BIFF);

flat 10 percent tax rate. Further to it, no questions would be raised about the source (colour) of the money. But given the behaviour of the holders of these undisclosed money in the previous fiscal, there is no reason to be optimistic this time, too.

Grossly stated, in the three and a half decades between 1975 and 2010, the amount of black money whitened comes to around Tk.137 billion (without calculating the gradual depreciation of Taka over the decades).

Now what is the proportion of the black money officially disclosed to the actual amount operating unbeknown to the government in the economy? Do we have any estimate about it? A guesstimate says that currently the size of black money in the economy ranges between 48 to 84 percent of the Gross

Domestic Product (GDP). The GDP will hover around Tk.7.87 trillion at the end of the current fiscal. From the GDP figure, the arithmetic to calculate the present size of black money is simple. It would be between Tk 6.62 trillion at the highest and Tk 4.74 trillion at the lowest.

Now we will leave it to the readers to calculate the ratio of the money whitened over three and a half decades' time to the amount of black money operating in the economy at the moment.

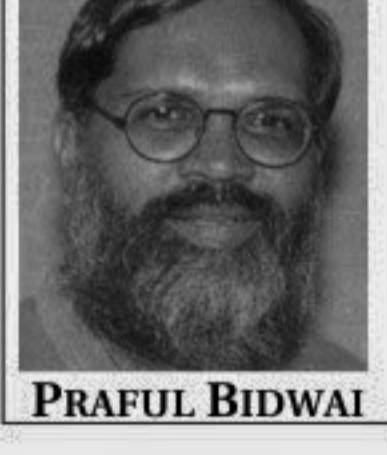
To all intents and purposes, the ratio would make a ridiculous figure. Then what has been the justification of the successive governments in relentlessly courting the black money holders? In truth, legalisation of undisclosed money is wrong not only on moral grounds, but it is also counterproductive on pure economic grounds. In fact, whether the undisclosed money is legalised or not, it is very much in the economy and that too as part of the GDP. Amounts kept in the banks are being lent to public or private sector projects. If the form of real estates, the owners gets the scope of registering those in their actual names then it would be the same case with black money in stocks and bonds. The revenue that has so far been earned by the government in the process is also very little. The exercise has proved to be a zero-sum game and no new asset has been created through it. And the money taken abroad is safe there and its holder(s) finds no compelling reason to bring it back home under any circumstances.

And the net result is that legalisation of black money demoralises honest taxpayers and encourages tax evasion. That damages the economy irreversibly. So, the government should have a radical rethink of the matter and stop kowtowing to the black money holders in the future.

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## PRAFUL BIDWAI COLUMN

# Overcoming drafting committee impasse



PRAFUL BIDWAI

**T**HE Indian government's first-ever effort to accommodate civil society concerns on corruption has ended. This was a roller-coaster ride

for the government-civil society Joint Drafting Committee on the Lokpal (ombudsman) Bill. It left both sides badly injured.

They will present their separate recommendations to a proposed all-party committee in July, but that may not break the impasse.

The government set up the Committee in panic at the response that Anna Hazare's fast drew from the middle classes, which "could get out of hand." It gave non-government members (Team Anna) an unprecedented 50 percent representation in the "safety-value" Committee.

The Committee debate, marked by mutual suspicion, bad faith, abuse and accusations, was conducted in the shadow of Baba Ramdev's fast, and the government's gross mishandling of it. That the two parties reached at least partial agreement affirms the value of reasoned debate on public policy issues.

Some matters have been sorted out in the Committee, including the size of the Lokpal team (11 members) and a separate investigation wing for the Lokpal, who can prosecute public servants without prior government sanction. Optimistically, the areas of convergence and discord could both enrich the debate and result in a good Lokpal Act.

There are two preconditions, however. One, the government shouldn't scuttle the debate. Two, the Congress party shouldn't use its usual Machiavellian tactic of making cosmetic changes to the way its government functions.

It would be suicidal for the Congress to do this. Its government's credibility stands battered by numerous scams. The latest involves Reliance Industries'

padding-up its capital expenditure on Krishna-Godavari gas by \$6 billion -- at public expense.

So how should the government and Team Anna alter their Lokpal Bill drafts? The main differences pertain to extending the Lokpal's ambit to the prime minister's office, the higher judiciary and the conduct of MPs in parliament; the Lokpal's appointment and removal; funding; putting the CBI's anti-corruption wing under the Lokpal; disciplinary power over allegedly corrupt officials; and term of punishment for corruption.

The government wants, at maximum, that the Lokpal would receive com-

judgment leading to defrauding of the exchequer, is established. The Lokpal's scrutiny should cover the scope for corruption contained in PMO-influenced policies.

Logically, the higher judiciary should be excluded from the Lokpal's ambit, and made subject to the proposed National Judicial Commission.

Team Anna would like the Comptroller and Auditor General and the Chief Election Commissioner to be part of the Lokpal selection committee, in addition to the PM, the speaker, leaders of the opposition in parliament, the home minister, senior bureaucrats, etc. This should prove no great obstacle.

### *We must fight corruption in ways that strengthen democracy without creating new unaccountable power centres. If the government wants a figleaf of legitimacy, it must draft an effective Lokpal law.*

plaints against the PM, but defer investigation until s/he demits office. In support, it cites the report of the National Commission to Review the Working of the Constitution (2002), which said: "The nation cannot afford to have a prime minister under a cloud..." subjecting the PM to the Lokpal "would severely impair his independence and freedom of judgment."

There is merit in this argument. The Lokpal should not destabilise the government or the PMO. But a mere investigation wouldn't do so. Rajiv Gandhi didn't stop functioning after the Bofors investigation started.

The PMO today covers many areas outside the PM's portfolio. It periodically issues directions on matters as varied as foreign policy, global climate negotiations, and allocation of electromagnetic spectrum. These should be brought under the Lokpal's scrutiny, with adequate safeguards against frivolous complaints.

The PM's authority should not be wantonly weakened -- unless a strong *prima facie* case of corruption, or mis-

The government should also bring corrupt bureaucrats under the purview of the Lokpal, who should be empowered to recommend disciplinary proceedings once their guilt is established.

However, Team Anna should not see the Lokpal's office as a countervailing force to the government or a permanent supervisory authority. That cannot work in a democracy, with an autonomous executive subject to checks and balances.

Team Anna is wrong to insist on one-quarter of the government's revenues as the Lokpal's budget, and on a life sentence for corruption.

Team Anna members mistakenly exaggerate the Lokpal's anti-corruption role. The Lokpal cannot pre-empt, prevent or control corruption.

Corruption doesn't occur primarily because there's no "independent, empowered, and accountable anti-corruption institution," but because of a neoliberal policy regime that encourages privatisation of common property resources through sweetheart deals and a politician-bureaucrat-businessman

nexus; the rise of greedy entrepreneurs; an increasingly compromised civil service; poorly monitored public service delivery; and a dysfunctional justice delivery system.

Correcting these will need administrative reform, social audits of important programmes, grievance redressal, and transparency in appointments -- and new laws on judicial accountability, whistleblower protection, and rights to public services. No less important is police reform.

These measures will promote accountable governance, reduce the scope for diversion of public resources, and prevent and punish corruption. Only enforceable entitlements to public services can eliminate the scope offered by discretionary powers and foster accountability on the part of government functionaries.

Anna Hazare and Baba Ramdev miss the roots of corruption. Ramdev distorts the issue in his booklet *Hamare Sapnon ka Bharat*: Governments don't enact good anti-corruption laws "[because] the mothers, sisters and daughters of Cabinet ministers ... are never raped, nor do they and their families have to eat adulterated food, nor is the money lost in corruption theirs."

Ramdev's fast reduced the corruption issue to a farce and discredited him. Hazare has threatened another fast starting August 16. He should understand that fasts can acquire a blackmailing character and that one-man anti-corruption crusades cannot bring about structural change.

Team Anna should concede that legislation is a function of elected legislators, not civil society groups. Civil society may make suggestions and recommendations. But it cannot replace lawmakers, nor take to the streets unless all its demands are accepted.

We must fight corruption in ways that strengthen democracy without creating new unaccountable power centres. If the government wants a figleaf of legitimacy, it must draft an effective Lokpal law.

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## THIS DAY IN HISTORY

June 27

1743

War of the Austrian Succession: Battle of Dettingen: On the battle field in Bavaria, George II personally leads troops into battle. The last time that a British monarch would command troops in the field.

1941

German troops capture the city of Bialystok during Operation Barbarossa.

1950

The United States decides to send troops to fight in the Korean War.

1954

The world's first nuclear power station opens in Obninsk, near Moscow.

1977

France grants independence to Djibouti.

1991

Slovenia, after declaring independence two days before is invaded by Yugoslav troops, tanks, and aircraft starting the Ten-Day War.