

EXCLUSIVE INTERVIEW

'Stop this sham of whitening black money'

*Dr. Muinul Islam, Professor, Department of Economics, University of Chittagong and ex-president, Bangladesh Economic Association, talks with A.B.M. Badrud Doza of The Daily Star on black money and its effects.*

The Daily Star (DS): How do you define black money? Where does all the black money go?

Dr. Muinul Islam (MI): Black money can be described in different ways. As we have learnt from statements made by the present chairman of the National Board of Revenue (NBR) to the press, NBR defines it as any legally or illegally earned money, which is not declared to the government agency, and on which no income tax is paid to the government (*oprodorshito ortho*). This definition tends to dilute the seriousness of the issue of black money, because it minimises the importance of the concept of "illegally obtained money" or "unearned income" or "money amassed through immoral, improper and illegitimate means." We should appreciate that in people's common perception they link up corruption, crime, illegal activities and black economy with black money. Therefore, a more popular perception of black money revolves around the concept of illegally obtained money through political and/or bureaucratic corruption, bribery at all levels of the government, semi-government, autonomous or semi-autonomous offices or organisations, money amassed by the businessmen through smuggling, black marketing, shady deals, profiteering, etc., money amassed by labour leaders, student leaders, mastans and chandabaz through extortions, and especially, money amassed by functionaries of the ruling government party and its various organs, and their families, relatives and cronies. I myself prefer this popular version, because, it helps focus on the harmful and deleterious effects of black money on the economy, society and the polity of the country. Black money circulates both in the formal economy and the parallel "black economy," which tends to gain strength day by day at the cost of the formal economy, because black money naturally prefers activities relating to the black economy.

DS: What is your view on whitening of black money? Do you support it as an economist? Do you feel comfortable with the whitening mechanism?

MI: No, I do not support the decision of the government in recent years regarding the so-called whitening of black money. This signifies that the government is actively fostering the black economy, which has been rapidly criminalising our politics as well as encouraging the economics of corruption. It is no accident that Bangladesh became the world champion consecutively for five years (2001-2006) in the country ranking of Corruption Perception Index (CPI) published by the Transparency International, a Berlin-based watchdog organisation of Corruption Worldwide. Such practice is neither economically fruitful nor ethical. Rather, it is grossly counterproductive from the point of view of strengthening the revenue generation efforts of the government. (Only during the rule of the caretaker government of 2007-8, the whitening mechanism generated noticeable amount of revenue on that account because of strong arm tactics of military personnel actually running that government.) One should be reminded at this stage that the government revenue-GDP ratio of Bangladesh is one of the lowest in Asia, and it is hovering around a meager 10.5%. More unacceptable is the fact that very fast emerging cohorts of millionaire businessmen of the country are contributing an

unbelievably low proportion of the government's personal income tax collection every year. For example, Bangladesh Bank declared in a recent news item published in the newspapers that there are 23,212 '*kutipathis*' (multi-millionaires) in Bangladesh. On the other hand, the NBR chairman disclosed to the press that the number of persons paying more than Tk.100,000 as personal income tax in the 2011-12 taxation-year has not surpassed even one thousand! How do you reconcile these two facts? During the current financial year (as well as in recent years), one can whiten black money by paying only 10% tax. But, if a person takes advantage of this facility by whitening only 1% or less of his/her total black money, and keeps the relevant documents for records, he/she virtually gets a second line of protection against government investigation about total amount of his/her black money, because nothing is written on the currency notes to show whether the money is "white" or "black," but the very fact that he/she has got documentary evidence of whitening some black money will be immensely helpful in continuing the activities generating such black money. (Obviously, the first line of defense is the widespread practice of paying bribes on a regular basis to keep the income tax collectors quiet! That is the main secret behind the surprising fact that Bangladesh has fewer than a thousand income tax payers paying more than Tk.100,000 a year as personal income tax.)

DS: Is whitening black money not discriminatory against honest businessmen who pay taxes? Does it not induce tax evasion? Does it not promote further black money accumulation?

MI: Definitely discriminatory. The lowest income tax slab is 10% and the highest slab is 25% in Bangladesh. Is it not foolish to be an honest businessman paying higher rates of taxes when he/she knows that whitening black money requires the payment of taxes at 10% only? It is an open secret that most of our business people do not find tax evasion as unethical. In fact, throughout the world, tax evasion cannot be effectively controlled by the governments. Developing countries as well as the least developed countries (LDCs) like Bangladesh have poorer abilities compared to the developed countries regarding proper assessment of personal incomes of business people, who are known to maintain several sets of books of accounts of their business concerns in order to hide their actual incomes from government agencies. But, the privilege of legally whitening black money by paying the lowest slab of only 10% income tax rate, as provided in Bangladesh, is truly shameful and reprehensible.

Yes, it induces widespread tax evasion. More reprehensible is the fact that it reveals the immoral characters of our leaders running the government. We know that many of them are thoroughly corrupt. How can they sermonise people about honesty when people do not have an iota of respect left for them?

Yes, it directly promotes further accumulation of black money. Some researchers are even claiming that the black economy has already become almost 60-80% as large as the formal economy in Bangladesh. These are "guesses," no doubt. But, nobody can deny the fact that the strength and command of the black economy have been increasing dur-

ing the last 21 years of elected governments in Bangladesh. These are frightening statistics and dangerous trends from the point of view of their all pervading effects of corrupting and criminalising the whole society. Corruption is spreading as an incurable cancer in our society.

DS: Is black money whitening encouraging corruption? We usually target tax evasion which is the end side but we should also focus on the source of income. Illegal source of income is also punishable. Can anyone escape the charge of illegal source of income by paying the tax only?

MI: Yes, the legally permitted system of whitening black money is definitely encouraging corruption. I have already explained why it acts as a wrong signal to the persons indulging in corruption that they will get some sort of relief and reprieve from the government. We know that politicians of the ruling party and its different organs enjoy the privilege of a protective umbrella from the long hand of law enforcement agencies. So, if they can get some document to show that they have whitened their money, that document virtually provides them a kind of immunity from criminal proceedings against them. The case of Begum Khaleda Zia whitening her black money should be a glaring example of such immunity provided by the facility. Theoretically, the Anti Corruption Commission (ACC) can start proceedings and push charge sheets regarding illegal activities. But the long process of law enforcement has utterly failed to finally bring even a single accused person up to the actual punishment stage. The powerful hand of black money is even longer than the long hand of law in Bangladesh!

DS: After getting whitened the money goes to formal sector. What are the impacts?

MI: It has to be admitted that the government actively facilitates money laundering through legal provision of whitening black money. Therefore, even though only a small proportion of the black money of a person is whitened through payment of 10% tax, the process allows the entire black money to circulate in the formal economy as well as in the black economy, if the owner of that black money chooses to do so. Most of the black money goes for consumption purposes, especially conspicuous consumption. Some money goes for investment in land, real estate, construction of houses and purchase of apartments, purchase of gold, etc. A portion is deposited in the banks, especially as fixed deposits. Now, the government is actively inviting such black money in the share market. In fact, for all practical purposes, the risks of holding black money are largely eliminated through the process of whitening black money, and that is the real purpose of the present policy. But, unfortunately, black money cannot be wooed significantly in productive investments, because the rates of return in investment in activities belonging to the black economy remain quite high. That is the experience with black money throughout the world.

DS: What is our previous experience in terms of whitening money? Does it bring any good result?

MI: As the finance minister has recently stated, a very significant proportion of our overseas migrants have been using informal channels of sending remittances, and that is, strictly speaking, a very important source of black money in the econ-



Dr. Muinul Islam

omy. We know that the money pouring in through the "*hundi*" process is undoubtedly circulating in both the formal and the black economy. This is one of the main factors behind inflationary pressures generated in the economy and the astronomical prices of both urban and rural real estate -- plots, apartments, agricultural land, commercial land, shops, etc. On the other hand, remittances, whether formal or informal, are boosting our economic growth rate, bank deposits, construction of rural and urban housing, rural roads, electrification, mechanisation of agriculture, fishery, etc. Everything is not "negative" coming out of informal inflow of remittances. So, some critics are blaming the finance minister for pointing fingers at the overseas migrants directly. We all know that the "dons" of the black economy are minting money, and the migrants have rather become victims of the machinations of these "black money millionaires." They should be targeted by the finance minister, the popular sentiment urges.

DS: Many say we have a parallel economy of black money. Do you have any idea how large it is? Is it possible to eradicate the menace totally?

MI: I have already answered the first two questions. Regarding the third question, my answer would be that it is not easy to tackle the menace of black money in Bangladesh at the present stage. But, the government must stop giving the wrong signal, and immediately start the process of controlling black money generation boldly through proper policy changes. It is not an impossible task if the government sincerely wants to curb activities that generate black money. Lessons can be learnt directly from Hong Kong and Malaysia.

DS: What steps should be taken to prevent formulation of black money?

MI: The NBR must be strengthened to reach the prospective income tax payers without any bias for or against a person on the basis of "whiteness or blackness" of taxable income. Corruption has made all tax collection agencies almost dysfunctional. Please strengthen the ACC to effectively tackle political and bureaucratic corruption as a truly independent anti-corruption agency free from interference of the executive branch of the government. Reform our judicial system on an urgent basis. There cannot be any discriminatory tax rates for any segment of tax payers. There are many mechanisms of money laundering in Bangladesh. It is ridiculous that the government has been acting as a willing partner in money laundering! There is a very strong incentive structure behind the growth of the black economy in Bangladesh. In many of my research publications, I have been trying to suggest remedies against this serious menace. But, the first step must be: Stop this sham of whitening black money. Please!

DS: Do you have any idea how India is tackling its black money?

MI: I do not want to comment on the Indian situation, because, I do not have the latest information on the Indian policy package on the issue. But, I know for certain that India does not allow whitening of black money by paying only 10% tax.

SHIFTING IMAGES

Pandemonium in the air



MILIA ALI

RECENTLY, I was on a flight where most of my co-travelers were South Asians -- the majority being Bangladeshis headed for the job market. The check-in process was an ordeal of pushing, shoving, queue jumping, and hysterical arguments about overweight baggage. Once the flight was airborne, the ordeal turned into a nightmare of loud conversations across aisles, and, most revolting of all, toilets flooded with water and littered with paper towels!

Some of you may consider my travel description the ranting of an elitist snob! Please bear with me and hear me out. Honestly, I am an ordinary mortal with varied travel experiences ranging from trams and buses to budget airlines! The behavioural pattern I described above is predominantly common in South Asia, and, in varying degrees, cuts across all social and economic levels.

The frustrations encountered during the journey actually set me thinking: why do most people from our part of the world lack basic civic sense? Is it the social milieu that creates a feeling of insecurity resulting in chaos and indiscipline? I guess we are all products of our environment and our actions and reactions are dictated by our personal experiences. And, when people are unsure about the fairness of a system they resort to breaking the rules and cutting corners.

While unfairness and unequal treatment may serve as an explanation or even an apology for unruly behaviour, it cannot be used as an excuse. In the public arena, certain behavioural norms must be followed. These norms have nothing to do with class or strata. They are universally accepted codes of conduct that people in most countries abide by, and have been designed to make life easier as well as to ensure that everyone is treated transparently and fairly. A simple example: we queue up and wait our turn not because the authorities exhort us to do so, but because of the unwritten rule that whoever arrives first must be served first. When we jump the line we create confusion by disrupting the *modus operandi*.

Let me reinforce my arguments by elaborating on the issues that caused aggravation during my travel.

*While unfairness and unequal treatment may serve as an explanation or even an apology for unruly behaviour, it cannot be used as an excuse. In the public arena, certain behavioural norms must be followed.*

1) When an airline stipulates that we are allowed 20 or 30 Kgs of checked baggage, it is a standard rule based on cost and profit calculations. There is also a safety factor involved, since each aircraft can carry an optimum amount of load. If we turn up with 50 Kgs, we should be prepared to pay for the excess baggage just as we are required to pay a fine when we violate the speed limit. There is no room for argument here. If we are unwilling or unable to pay the extra charges, we should resist the temptation of buying/carrying our entire household on a single trip!

2) The airplane is essentially an enclosed space where everyone tends to be a bit edgy. Since we humans are not natural fliers, there is bound to be a degree of nervousness and apprehension. Loud conversations, especially during a night flight, can create unnecessary annoyance and agitation for our fellow travellers. Maybe airlines could consider imposing a penalty for in-flight verbal exchanges above a certain decibel level!

3) Why is food always a contentious issue for us South Asians? If we didn't pre-order halal or vegetarian food, let's just deal with it by eating whatever is available or not eat at all. No point in insisting that our meal choice be served. Unfortunately, there is no "take out service" available at thirty nine thousand feet above sea level!

4) As for using (or abusing) the toilets -- I am really curious as to why so many bottles of water are needed for performing a simple, routine bodily function. Let's not bring religion into this argument, because it's preposterous to believe that the desert-dwelling Arabs found gallons and gallons of water to cleanse themselves in the early days of Islam. By the way, the bathroom door does have a lock and it usually works!

5) The crew are not required to store our heavy hand luggage in the overhead lockers. They may do so as an act of courtesy, but we can, at least, ask them nicely. And, it really is rude to snap one's fingers at the cabin staff and shout "coffee!" A civil request and a smile can work wonders!

Oh! One last thing. "Please" and "thank you" are not just esoteric words hidden in the pages of the dictionary. They are for real. We need to use them, and as often as we can!