

# Finally Obama gets serious on climate change



SALEEMUL HUQ

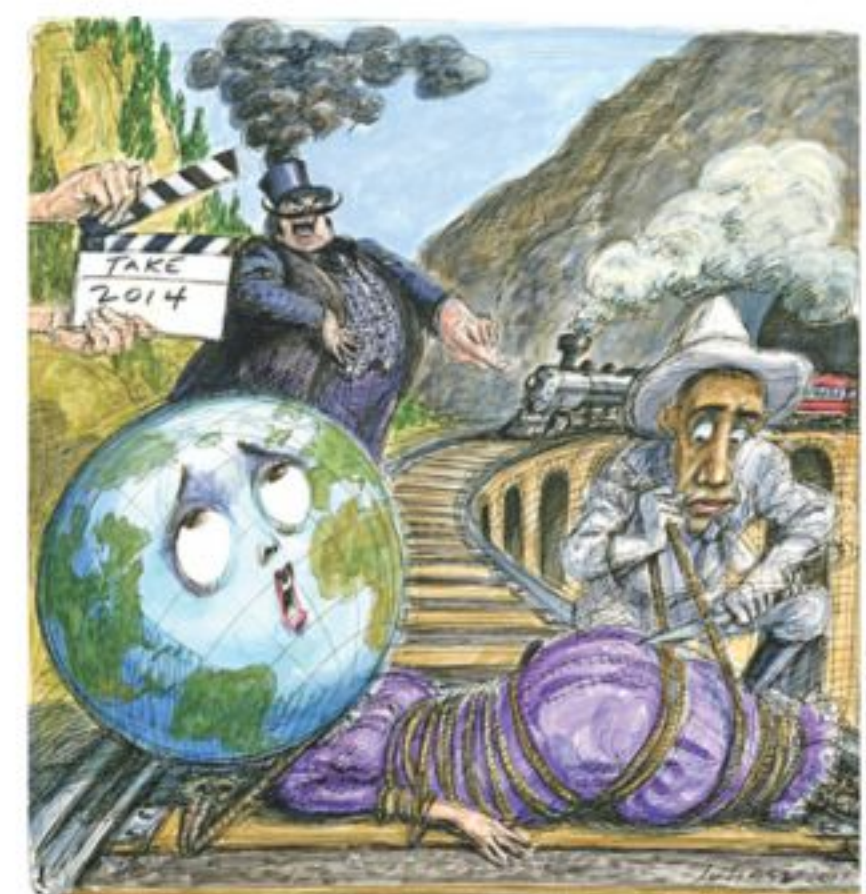
*The real costs of inaction are now becoming clear to even the most willfully blind politicians around the world and therefore the need to take much greater action to prevent catastrophic climate change impacts*

**P**OLITICS OF CLIMATE CHANGE  
 RESIDENT Obama's declaration today on limiting emissions of Carbon Dioxide by a third from coal fired power plants in the US is a major step in the right direction and marks the tipping point in US engagement in tackling the global problem of climate change. It is not that the amount of emission reductions thus achieved are particularly large compared to the scale of the problem, but rather that President Obama has finally decided to put his political capital behind this issue, which is arguably the most important and far reaching one that his generation of leaders will have to face.

The point that he seems to have finally understood is that as the current leader of the richest and most powerful country in the world and (now) its second biggest emitter of greenhouse gases (GHG), he bears a singular responsibility to leave the world a better place for his children

and future grandchildren. Tackling climate change is not a matter of protecting the interests of the US (or any other country) against other countries (which is what normally happens in global diplomacy) but rather a challenge to this generation of global leaders who will be answerable to their children and grandchildren rather than to their current (adult) electorates.

Most of the people, and some leaders, in the rest of the world had realised this already and are beginning to take significant actions but the US has been a major laggard, because of its peculiar anti-science politics. For example, the House of Representatives recently held a hearing on the International Panel on Climate Change (IPCC) and declared it to be non-scientific. Even the words "climate change" seems to be confusing for the US public who prefer the words "global warming." In any case, whatever the words they choose to describe the problem, it seems that President Obama, his advisers in the White House and Federal Government, have decided that it is indeed their duty to



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take on the denialist factions in Congress and media on this vitally important issue.

One of the important aspects of how the issue is explained, and whose narrative counts, is the issue of cost. The climate change deniers (or those who oppose actions even if they don't deny climate change) focus on the "costs of action" and they exaggerate those costs to frighten leaders into inaction. However, what is becoming clearer with time, is that

the "cost of inaction" is many times higher than the costs of action. However, the crucial difference in the two costs is that the costs of action will hurt the vested interests and fossil fuel industries, whereas the costs of inaction is already being borne by the poorest and most vulnerable countries and communities and that even the rich countries are now having to face the costs of climate related phenomena like hurricane Sandy in the north east and the drought in California in the US. These costs are borne by the people in general (and poorer people in particular) who are not able to pay for expensive lobbyists to influence their leaders to take appropriate actions.

However, the real costs of inaction are now becoming clear to even the most willfully blind politicians around the world and therefore the need to take much greater action to prevent catastrophic climate change impacts as projected with a 4 degree Celsius rise in temperatures over coming decades, which where we are headed, to bring those temperatures

down to well below 2 degrees (which is the stated aim of all countries).

The upcoming Climate Change Summit called by the Secretary General of the United Nations, Ban Ki Moon on September 23 in New York will be the appropriate occasion for President Obama of the US, President Xi of China and the newly elected Prime Minister Modi of India, as well as other presidents and prime ministers to come and make significant pledges for actions which are commensurate with the scale of the problem. This is their opportunity to look their children and grandchildren in the face and say that when they were called on they did the right thing for both future generations as well as for the entire planet and not just for their own countries.

It is time for world leaders to show global leadership rather than just national leadership.

The writer is Director, International Centre for Climate Change and Development, Independent University, Bangladesh and Senior Fellow, International Institute for Environment and Development.

## Catching out of shadow economy

M. AMINUL ISLAM AKANDA

**T**HE Ministry of Finance in 2010 estimated the size of our shadow or black economy up to 82% of the Gross Domestic Product (GDP). Black money is essentially currency that circulates parallel to regular economy and adds much of the unaccounted costs with illegal activities. An example is the illegal use of formalin in informal fruit business. This might raise investment for hospitals and contribution of health sector to the GDP, but such a mitigation-oriented growth does not justify development. In this regard, green taxation would be praiseworthy initiative by the government. On the other hand, unnatural expenditures with black money undermine the targets of monetary, fiscal and other policies. Meanwhile, all governments, either political or military, recognised the problems with shadow economy but their easy initiatives for money whitening though budgets were not effective in bringing black money into tax radar.

Economics of black money justifies people holding on to it in Bangladesh. Its financial return is higher than that of white money. Any non-taxpayer business with illegal money will obviously make more profit than taxpayers. The illegal money earners do not have social costs even from teasing due to degrading deontology. Under a changing state of political ethics towards political business, many leaders and even students do not care for making black money. Moreover, its legal cost is not high for a low probability of being caught and punished. Accordingly, the opportunity cost of holding black money gets higher for its lobbying capacity, too. When a budget offers any money whitening provision as per Section 19 of our Tax Ordinance, it shades them over a fiscal year. If such an offer continues for years, the costs get so low that a risk averter would not hesitate to make black money.

This money whitening offer is reversal of the strict clauses of our tax ordinance. Our tax policy emphasises on collecting more and more taxes almost from the same taxpayers. Moreover, the government keeps the income ceilings fixed for years or does not adjust with the consumer price index (CPI), which raises personal tax burden among existing

taxpayers. Keeping the black money owners safe with a parallel policy is also a complete violation of equity principles in taxation. Our finance minister acknowledged this unethical offer as a political compromise. If it is due to invisible hands, our democratic government will be more compromising before election year at the end of a political business cycle. However, this flexibility in our strict tax regulations is responsible for enlarging our shadow economy but it will not be easy to come out of such a fallacy of hypothesis contrary to fact.

Will the strictness in tax regulations be capable of downsizing our giant shadow economy? It has a success story of whitening Tk. 98 billion during the regime of immediate past caretaker government. A current price estimate compared it with a total of Tk. 90 billion regularised between 1976 and 2006. However, the response has been very poor over the last few years. Why will people enter into tax-net when they believe on the compromises to repeat? On the other hand, it is not easy to disclose illegal criminal earning like unreported salaries or assets. Rather, it is somewhat true that many businesses, including our political system, will break down without black money. As the problem is not just with tax regulations, it cannot be overcome through capacity building of the National Board of Revenue (NBR).

Meanwhile, our shadow economy has proliferated into criminal, informal and household sectors. Its criminal part is the largesse coming from drug-trading, smuggling, bribery and other illegal activities. Isn't this economic dynamism linked to our power system? Our politicians need to make very high-risk investment during election, which that leads them to illegal earning to recover investment and also to prepare for the future. While a person gets a public job on bribe, he has scope of illegal earning to get the money back. Businessmen raise the product prices because of their additional transaction costs from corruption. Any contractor who gets work orders with additional transaction costs, would degrade works to recover costs. A report of the TIB added that contractors pay 10% bribe to get work orders from local governments. This is how the benefits move cyclically to all stakeholders of shadow economy, breaking of which can only scale it down.

Naturally, the earners of black money become risk-lovers because of

their lower marginal utility of money. The adoption theory justifies their joining in new enterprises. However, the whitening scope is given to almost loss sectors, like the stock market after the crash. Would they regularise it if not economically viable? On the other hand, our investment situation is unsatisfactory and limited investment GDP ratio around 25% for the last few years. Moreover, the incremental capital output ratio has increased from 4.1 to 4.4 in a year not for capital intensification but for loss in capital productivity during political instability. Where a drive to single-digit interest rate was ineffective to lift investment, a compromising tax policy would not develop industries in our all-embracing market.

Whatever it is for, so-called political compromise depends on the willingness of our finance minister. He does not want to keep the unethical provision of money whitening for the next fiscal. However, such words are so flexible that our ex-finance minister even changed his words just before his budget speech. It is a cheap option to empower the minister but a costly option to weaken the NBR, and needs to be abolished from our Tax Ordinance. The government must not confer burden to payers who are neither a welfare agencies nor a commercial bodies. In this regard, a clause for automotive adjustment of income ceilings needs to be incorporated in the ordinance.

Moreover, a systemic strategy is needed along with necessary changes in regulations. A separate act with timeframe would be rational to regularise our shadow economy. It might impose an incremental tax rate like 10% for regularising in first year plus an extra 5% for second year and so on for all subsequent years. Subsequent attempt would be non-compromising, for which the NBR must be strengthened both with digital and human capitals. Our database for national ID would be a base to move forward. What is prime essence for all changes is the mindset of our political leaders. How can we expect the beneficiaries of shadow economy to initiate actions against it? It would be possible at least through reforms in capitalistic election system, accountability in parliamentary system and real independence in judicial system.

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