Towards a more caring society

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BANGLADESH can take pride in showing the world how development is possible even in the face of heavy odds. Bangladesh ranks the world's fifth most vulnerable country in terms of risks of natural disasters. Excluding a few countries with a tiny population (less than two million) and the two city states of Hong Kong and Singapore, at 1,200 people per square kilometre Bangladesh is the most densely populated country in the world. In comparison, the population densities are 376 for India, 246 for Pakistan, 141 for China and 133 for Indonesia. Despite these natural pressures, Bangladesh has accelerated from a less than $100 per capita income country in the early 1970s to more than $1,300 in 2015, thereby moving from a low-income economy to a lower-middle income economy. Life expectancy has gone up from 47 years in the early 1970s to 71 years now. Incidence of poverty has gone down from around 80 percent in the early 1970s to below 25 percent in 2015. These are remarkable achievements for a country facing such natural odds.

How has Bangladesh achieved these development successes in a fairly short period? There is a large body of literature that has looked into this question. My own research suggests the following major contributors:

i) Strong emphasis to agriculture and food production, leading to food self sufficiency and low prices of food grain in real terms;

ii)Deft population management leading to an impressive reduction in total fertility rate;

iii)Emphasis on private investment through sound macroeconomic management, economic liberalisation and the growth of the banking sector;

iv)Policy support to the growth of the garment sector;

v)Policy and public investment support to rural development;

vi)Promotion of worker migration and remittance mobilisation.

The outlook today is that Bangladesh will continue to grow further and possibly at a more rapid rate than in the past. Bangladesh already achieved 6 percent plus GDP growth during the Sixth Five Year Plan. It now aspires to move to a 7 percent plus growth path. The major policy challenges to secure this growth path include increasing the investment rate from 28 percent of GDP now to 34 percent by FY2020; enhancing the skills base of the workforce; strengthening the investment climate for the private sector; improving the efficiency of the banking sector; reducing the anti-export bias of trade policy; sharply increasing the supply of energy at a reasonable cost; and addressing the transport bottleneck.

These are no mean challenges, but the good thing is that these are on the government's policy table and widely discussed in business and public forums. The issue that is less discussed with the intensity and resolve that it deserves concerns the equitable sharing of the benefits of development. This is mainly because of a complacency that Bangladesh has done very well in reducing poverty and improving human development, thereby fuelling a perception that all is well on the equity front.

There is no question that the contributors to development listed above were good for both growth and poverty reduction. The low initial conditions led to sharp improvements in poverty and human development. Much of the improvement in poverty came from private-sector driven growth in agriculture, garment and remittances. Public policies played a supportive role. Public spending on health, population management and education has been generally modest, hovering around 3 percent of GDP, but they were rightly focused on basic education, fertility reduction, child immunisation and control of mass diseases that help explain the progress with human indicators.

The equity challenge today is quite different. Poverty has fallen but this is measured in terms of a very modest poverty line. This is starkly illustrated when poverty is measured against the international poverty line used by the World Bank for international comparison of progress with poverty reduction. The World Bank uses $1.9/per day in 2011 purchasing power parity (PPP) terms for measuring extreme poverty and $3.1/per day for measuring moderate poverty. Using these poverty lines for Bangladesh, in 2010 some 43 percent of the population consumed at below $1.9/per day (extreme poor) and some 76 percent of the population consumed at below $3.1/per day (moderate poor). The high sensitivity of poverty incidence to the choice of poverty lines is simply a reflection of the heavy concentration of population around the poverty line (the near poor). Comparable numbers are 22 percent and 58 percent for India; 11 percent and 27 percent for China; 16 percent and 46 percent for Indonesia and 3 percent and 14 percent for Vietnam. These suggest that poverty in Bangladesh remains a serious challenge and it will not go away soon.

Another dimension of the equity challenge is the quality of the workforce. There is no question that progress has been made in increasing enrollments in primary and secondary education. Retention and completion rates are also improving. Yet, the labour force survey of 2013 shows that some 21 percent of the workforce did not have any education; 29 percent had only primary education and only 6 percent had tertiary education. This profile of the workforce is not consistent with the skills requirements of a middle income economy. Importantly, without substantially upgrading the skills base of the workforce, the creation of employment in high-income jobs and the ability to lift the poor and near poor significantly above the international poverty lines will be near impossible.

Taxation is a tough challenge and compliance with tax laws requires both a strong administrative mechanism and willingness to pay. The willingness to pay by the rich is an important factor in the context of prevailing weak governance.

A third equity dimension is income inequality indicated by the distribution of income of the population. There are several ways of measuring inequality. The most commonly used measure in the economic literature is the gini coefficient. This is a summary measure of the gap between the actual income distribution and the hypothetical income distribution when income is equally divided (gini value of 0). The larger is the value of the gini coefficient away from zero, the higher is the income inequality. In popular discussions an often used measure is the gap between the income shares of the top 10th percentile of the population (richest 10 percent) and the bottom 10th percentile (poorest 10 percent).

Available data suggests that the gini coefficient of income (expressed in percentage terms) increased from 36 percent in 1983-84 to 46 percent in 2010. This long term trend is a clear reflection of the growing income inequality in Bangladesh. When inequality is measured in terms of the gap in the relative income shares of the richest 10 percent versus the poorest 10 percent of the population, data shows that the gap has been widening noticeably. Thus, the richest 10 percent owned about 10 times more income than the poorest 10 percent in 1983-84. This gap widened to 18 times in 2010. This large and widening income gap suggests that the strategies and policies for improving the inclusiveness of growth need to be re-examined to ensure a better sharing of the benefits of rising average per capita income. This is important for both lowering inequality and also for lifting the poor and near poor to above the international poverty lines.

Bangladesh is not alone facing the rising income inequality. For example, there is evidence of rising income inequality in India and China. But there are many examples of middle income and high income countries where average income is much higher while income inequality is lower than in Bangladesh. So, rising per capita income is not inconsistent with lowering inequality.

The policy choices are an exercise in political economy. As a society Bangladesh must chose the development path they wish to follow: a path of rising income with lower income inequality; or a path of rising income with rising inequality. The first path is consistent with the definition of a caring society where human values and dignities are important. In this path, society as a whole does not want to leave a very large part of the population (76 percent presently in Bangladesh using the 2010 Household Income and Expenditure Survey data and international poverty line) at very low levels of consumption and income, while the fortunate few (top 10 percent) have the bulk of the income (36 percent). The second path says it is fine to let the gap between the rich and poor grow so long as the average income for both is growing and the incidence of poverty is falling. This is the present status quo path that may survive for a period but will almost certainly meet social and political roadblocks down the line.

I for one will vote for the first path. Bangladesh must grow faster to attain upper middle income status in the next 25-30 years and higher income status after that. It has that development potential and there are certain sets of policy and institutional parameters that will make this possible. But this need not come at the expense of a caring social order where both the poor and the rich gain, but the poor gain at a faster pace to narrow the income gap with the rich. This path will make long-term development more socially and politically sustainable.

The experience of Korea, Japan, Western Europe, Australia and Canada all show that high per capita income and low income inequality can coexist. The key to this is redistributive fiscal policy. These countries have a fairly progressive and universal personal income tax system that raises substantial amount of resources from the rich population, which is then used for redistribution to the poor through public spending on health, education and social security. Bangladesh does not need to emulate the example of any one country or apply the same rates of taxation or redistribution, but it can learn from these experiences about how to design an effective redistributive fiscal policy.

At the heart of this fiscal strategy is the establishment and implementation of universal and progressive personal income taxation. Bangladesh raises only about 1.4 percent of GDP as personal income taxes. The 2010 HIES shows that an estimated 35 percent of the national income is owned by the top 10 percent of the population. Even with an effective average income tax rate of 10 percent, total personal income tax collection should be around 3.5 percent of GDP. This suggests that a large number of rich escape the tax net.

Owing to low tax to GDP ratio overall (around 10 percent of GDP now) and other competing priorities, Bangladesh spends 1.7 percent of its GDP on education, 0.7 percent of GDP on health and 1.5 percent of GDP on social security. These low levels of spending on social and human development, among other factors, is a primary reason for the low skills base of the labour force and large concentration of people below the international poverty line. In addition to rapid GDP growth, fiscal policy must be sharpened to raise more revenues from the rich (the top 10 percent) and spend them on health, education and social protection to build up the human capital of the poor and the vulnerable and to provide them with minimum social security benefits.

The government alone cannot do it. Taxation is a tough challenge and compliance with tax laws requires both a strong administrative mechanism and willingness to pay. The willingness to pay by the rich is an important factor in the context of prevailing weak governance. The rich in Bangladesh are able to escape the tax net because of their connection to the power base. The rich population should understand that a caring society -- where the needs of the poor are taken care of, where there are reasonably equal opportunities for growth of all citizens, and where the income gaps are not glaringly large -- is more stable over the longer term than one where the situation is the opposite.

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Women executives help fuel profits: study

REUTERS/FILE

Rush hour workers pass Tower Bridge in the financial district of London.

REUTERS, *New York*

COMPANIES with 30 percent female executives rake in as much as six percentage points more in profits, according to a study on Monday, feeding into a global debate over the scarcity of women in decision-making business roles.

The conclusion stems from a study of about 22,000 publicly-traded companies in 91 countries ranging from Mexico to Norway and Italy conducted by researchers at The Peterson Institute for International Economics, a Washington, DC-based think tank.

"If you're a firm and you're discriminating against potential female leaders, that means you're essentially doing a bad job of picking the best leader for your firm," said Tyler Moran, one of the study's three co-authors, in an interview.

The results indicate the presence of women in corporate leadership positions can boost a firm's performance, suggesting a reward for policies that facilitate women rising through corporate ranks.

But the study found while having women in executive ranks resulted in better profitability, female CEOs or board members did not have a statistically-significant impact on the bottom line.

The findings further show that not all firms are created equal when it comes to fostering women leadership potential, with some more likely to encourage female managers depending on characteristics ranging from size to national policies such as family-leave.

Larger firms, for example, appear to appoint more women on boards and in upper executive ranks.

Karyn Twaronite, a spokeswoman for professional services company EY, which helped fund the study, said the results would likely prompt discussion over the need for different kinds of workplace arrangements.

"This research sheds light on the importance of establishing modern workplace benefits, providing equitable sponsorship opportunities, and creating inclusive work environments, so that both men and women can have equal access to leadership positions," she said.

Still, despite the bottom line incentives of drawing in more female managers, much needs to be done, the research found.

Currently, about three in 10 companies worldwide have no women either in executive positions or on their board, the researchers found.

Next month academics, economists and top members of business and labor tapped by the United Nations will meet to make recommendations on how to boost gender equality and empower women over the next 15 years as part of a new set of global goals agreed by the 193 U.N. member nations last year.

US labour market strengthens despite economic slowdown

REUTERS, *Washington*

US job openings surged in December and the number of Americans voluntarily quitting work hit a nine-year high, pointing to labour market strength despite a slowdown in economic growth.

The signs of a robust jobs market could ease concerns about the health of the economy, which were underscored by other reports on Tuesday showing a drop in small business confidence in January to a two-year low and further declines in wholesale inventories.

"If the labour market is tightening, can the economy really be faltering?" said Joel Naroff, chief economist at Naroff Economic Advisors in Holland, Pennsylvania.

Job openings, a measure of labour demand, increased 261,000 to a seasonally adjusted 5.61 million in December, the Labour Department said in its monthly Job Openings and Labour Turnover Survey (JOLTS). It was the second highest reading since the series started in 2001.

The so-called JOLTS report is among the data watched by Federal Reserve officials to get a pulse on both the labour market and inflation.

The increase lifted the jobs openings rate to 3.8 percent from 3.6 percent in November. The hiring rate was unchanged at 3.7 percent, indicating that employers were having trouble finding qualified workers for vacant positions.

A total of 3.1 million Americans quit their jobs in December, the highest number since December 2006. That pushed the quits rate, which the Fed looks at as a measure of confidence in the jobs market, to 2.1 percent - the highest level since April 2008.

REUTERS/FILE

People visit booths at a military veterans' job fair in Carson, California.

The dollar pared losses against the yen after the data, while US stocks briefly reversed losses. Prices of long-dated US Treasuries were trading higher.

The report came ahead of Fed Chair Janet Yellen's testimony to Congress on Wednesday. A raft of weak economic reports, plummeting oil prices and a stock market sell-off have raised doubts as to whether the US central bank will hike interest rates this year.

The Fed raised its overnight benchmark interest rate in December, its first hike in nearly a decade. The economy, however, has been undermined by a strong dollar, sluggish global demand and an effort by businesses to sell off inventory.

Ongoing capital spending cuts by energy firms also are weighing on growth.

"Skeptics may argue that these (JOLTS) numbers are backward looking, and that spillovers from tighter financial conditions or the energy slump will curb labour market dynamics in the months to come," said Harm Bandholz, chief US economist at UniCredit Research in New York.

"This is certainly a risk and one important reason why the Fed is currently sitting back and waiting. But why should this happen now when it hasn't over the past several months? After all, oil prices started to fall in mid-2014, and most of the adjustment occurred in the first half of 2015."

The number of unemployed job seekers per open job, a measure of labour market slack, fell to 1.4 in December, the lowest level since March 2007 and down from 1.5 in November.

"Diminishing labour market slack has led to a modest increase in wage growth, evident across several measures of worker compensation," said Jesse Hurwitz, an economist at Barclays in New York. "We expect that wage growth will continue to move up gradually, helping core inflation return towards target once the headwinds from lower import prices subside."

While a separate report from the National Federation of Independent Business showed its Small Business Optimism Index fell 1.3 points to a two-year low of 93.9 in January, businesses continued to report tightening labour market conditions.

Small businesses reported a shortage of qualified workers to fill job openings, prompting some to start raising wages to attract and retain them. The share of small businesses raising compensation increased to its highest level since 2007.

"The combination of more job openings and more people quitting could result in pay increases, and we have seen a few other signs that wages have increased as the labour market has tightened," said Daniel Silver, an economist at JPMorgan in New York.