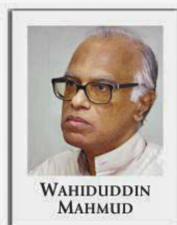


What to expect from the upcoming budget



WAHIDUDDIN MAHMUD

THE upcoming budget for 2017-18 will cover the last full financial year before the general elections. There will inevitably be some elements of populism, which is not always bad since political incentives sometimes coincide with genuine public interests; but this budget also provides a chance for the government to be

seen to consolidate the economic achievements that are claimed to have been achieved. In the later respect, not much seems to be in the offing.

The expectation of high GDP growth along with continued macroeconomic stability may have led the policymakers to be in a relaxed mood of business as usual, notwithstanding some ominous signs in the slowdown of export growth and a decline in remittance flows. While most of the discussions on the budget have been bogged down in the VAT controversy, the crying needs for transformational reforms in the economy remain ignored. Deep reforms are overdue to deal with the continued erosion of discipline and integrity in the financial sector, lack of a congenial investment environment leading to huge illegal fund transfers abroad, huge tax evasion, and the cost and time overruns of public sector projects.

The national income statistics for the last few years show that our gross national investment has fallen short of gross national savings, let alone savings plus net foreign aid that together represent the total supply of investment resources. That is an indication of a serious problem with investor confidence - an issue better left for analysis by experts in business psychology. Why, for example, do many of our business entrepreneurs have to live a dual life with part of their accumulation kept abroad instead of being invested in the country?

There is much to be done in improving the planning and implementation of public sector projects - particularly the large infrastructure ones - regarding cost control, technical design, environmental assessment, and credible economic evaluation. Availability of suppliers' credit, lobbying of interest groups and geo-political considerations will of course play some role, but these should not be the only determinants in decision-making for such projects.

While undertaking new infrastructure projects may seem politically attractive - be it high-profile national projects having prestige value or local projects satisfying electoral constituencies - the maintenance of existing infrastructure gets far less attention. Spending for maintenance can yield much higher returns than that on new projects. Investing on elevated highways, for example, would not contribute much to improve transportation if the roads underneath becomes unusable because of lack of maintenance.

The controversies regarding the projected GDP growth rate is another unnecessary distraction from the

substantial issues of economic management. The GDP growth rate is not the best indicator to judge the current economic trends. One should rather look for other readily available and more reliable indicators, like the export and import trends, number of containers handled at the ports, remittance inflows, growth in credit and money supply, etc. The current trends in these indicators do not indicate as much dynamism in the economy as would be suggested by the projected GDP growth rate.

The proposed introduction of the new VAT law has been in the centre of controversy in the budget discussions. In short, the new law proposes collecting VAT at the full rate, and not at a truncated rate, from the retail and wholesale businesses, while allowing for deductions for the VAT paid at the earlier stages of

they procure from non-VAT-compliant businesses; the small businesses paying turnover VAT may be at a disadvantage in selling their wares to VAT-compliant stores, who may not be able to claim deductions on such purchases. In the absence of any rigorous analysis of how all this will work, the likely impact on prices and tax collection remain anybody's guess.

Consequently, much of the on-going debates between the business community and the tax authorities have been rather in the nature of shadow-boxing.

The government policymakers seem to be, however responsive to some of the genuine concerns and suggestions coming out of the pre-budget consultations. They are reportedly trying to find ways of emphasising the maintenance of existing infrastructure alongside investing in new projects. The



SOURCE: CNBC

value chains. The main problem with VAT arises from its poor compliance, resulting in the vast majority of tax-eligible businesses currently lying outside the VAT net. This is the reason why a large part of VAT collections come from only a few items, some of which are widely used production inputs like gas, power and cement. Being an indirect tax on consumption, VAT should be collected as far as possible at the sale points of consumer goods and services. It is because of the reliance on VAT collections on intermediate goods and production inputs that the need has now arisen for the complicated process of keeping records and claiming deductions at various stages of the values chains.

The new VAT law may have various effects depending on how well the law is enforced. The non-compliant businesses may now try to pass on the full VAT on prices without actually paying the VAT; some of the compliant businesses may now pay the full VAT without claiming deductions because they are unwilling to show their entire business accounts, or they lack capacity for appropriate record-keeping or

emphasis on payroll taxes on the salaries of employees as a major source of income tax revenue, which is an outcome of last year's pre-budget discussions, is likely to continue. Another issue is making the transfer prices of apartments more realistic, so that a genuinely tax-paying seller is not left with unexplained income beyond what is shown in the registration deed. The VAT on the sale of apartment, which is investment rather than consumption, may be withdrawn for low-cost housing. For the relief of low-income consumers, the list of items for VAT exemptions is reported to have been widened. And there is also some thinking about how to increase allocations for social spending on health, education and social security, as befitting for an aspiring middle-income country. To the credit of the Finance Minister, the often heard allegation that the pre-budget consultations are merely a ritual not to be taken seriously is not entirely true.

The writer is Chairman of Economic Research Group, Country Advisor of International Growth Centre and Convenor, Governance Committee of Global Development Network.

Between work of art and object of worship

For Bangladesh to move ahead, we should be more accommodative

ISLAM does not permit idol worship. However, all sculptures are not idols meant for worship. There are carvings in various forms that are symbols of peace or justice, and there are those that are paean to the glorious history of our country and to our brave men and women who sacrificed their lives for our Liberation.

After all, the statue of Lady Justice was merely a symbol of justice, conveying the very underlying responsibility of those who pass through the portals of the Supreme Court building every day. It was, we feel, not an object of supplication, veneration or worship.

Thus, it is pertinent to ask what does one make of sculpturing as an art form that allows one the freedom to express oneself?

There has been also demand, following the removal of the said sculpture, that all sculptures in the country must be removed. There are a large number of sculptures all over the country which depict our glorious War of Independence, our valiant freedom fighters and commemorate our victory. All of these are places to commemorate history and show respect to our martyrs; far from being places of worship, they are the constant reminders of our pain as well as our glory.

Given the above, how are we to interpret the call for removal of these icons? It is appropriate to point out here that Pakistan had used "Islam" to suppress our rightful demands and aspirations. Will we be remiss in suggesting that doing away with symbols that memorialise the most glorious event of the nation's life will be an abnegation of what Bangladesh stands for and whatever we have achieved through our Liberation War?

Appalling conviction rate of rape cases!

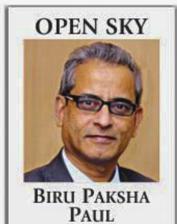
The system is stacked against victims

IT is unimaginable that less than two percent of rape cases filed in the country over the last five years have ended in conviction. Legal experts point out that because the legal process is so humiliating, the bulk of cases end in out of court settlements. According to police data, 18,668 rape cases were filed during the last five years and there were only 22 convictions. The bulk of rape victims shy away from pursuing cases because it is simply too embarrassing.

That the police are less than helpful in most rape cases was highlighted in the recent double rape case in Banani. And in a society where the rich and powerful hold so much sway, it is not surprising that many in the police force are averse to recording such cases. And even when they do, there have been allegations that the "preliminary investigation" takes up much of the 72 hours of the incident for any forensic evidence to be found. Considering the existence of Section 155 (4) of the Evidence Act that states "when a man is prosecuted for rape or even attempt to ravish, it may be shown that the prosecutrix [the rape victim] was of generally immoral character", which is applied liberally by defence counsel to vilify the victim's character, it is hardly surprising why so many cases are settled out of court!

The Banani case was perhaps an eye opener for us. It showed that no one is safe, but unless we are willing to make the system work for the victims as opposed to be favourable for rapists, thousands of such cases will simply be numbers in a police database and justice will continue to be denied.

Why politicians and economists don't get along



BIRU PAKSHA PAUL

RARELY have we seen both politicians and economists dance together and play the same tune on the state of the economy. When politicians begin to trumpet the

prosperity of the country, economists become doubtful, earning dislike from politicians. However, high-level politicians who we consider as visionaries (rather than everyday politicians) favour economists the most because a visionary leader has a dream and economists can help make it happen. Bangabandhu Sheikh Mujibur Rahman had instructed the first five-year planners to chalk out a roadmap for a

Politicians' dislike for economic policymakers becomes most apparent when the latter do not bow down to short-term targets to stimulate the economy artificially. That is why the two Bushes (dad and son) in the White House disliked economists Alan Greenspan and Ben Bernanke. Both presidents were Republicans and both economists were known for having republican preferences as well as at the time of their oath for the Federal Reserve chairmanship. Economist Raghuram Rajan was seemingly unpopular with the current BJP regime in India because he was tough on high-octane defaulters who are otherwise liberal in donating black money to the party funds instead of repaying their loans. Political preferences never control economists' decision-making in the same way justices cannot remain partisan while

a participatory democracy and trade openness.

Economists always urge for improving institutions that will, in turn, reduce corruption and rent-seeking. However, corrupt politicians know that they will lose power by making fortunes if the system is decent and functional. As institutions mature, there is little to extract. Economists do not have trade unions, and politicians thrive on it. Who would bribe the petty leaders unless the most anarchic transport sector is no longer in shambles?

Bangladesh's per capita income has grown five-fold in the last 24 years, and so has the income from the transport sector over the same period. But the government failed to ensure a minimum improvement in the standard of services in the sector. Economists would point it as an institutional failure. Even a partial adjustment between transport profit and the service standard over the last twenty years would require the greedy transport owners to install at least air-conditioned facilities in the buses. This is a purposeful failure of political institutions, helping the bus owners indirectly quadruple their profits. Economists become unpopular even with the mere mention of this injustice.

Bangladesh will one day become a developed country, but by when? Politicians predict this change in status to take place by 2041, but economists are doubtful about the timeline which is non-feasible, given the current growth of population and output. Here, politicians grudge economists for not being as optimistic as them. For politicians forging alliances with the rich is a win-win situation both for political fundraising and staying in power. Economists find it damaging for institutions and a compromise with long-term interests of competition and growth. Many economists consider hefty donations of the super-rich to government charities to be a form of bribe, but politicians, in contrast, perceive it as a gesture of 'generosity' and 'social responsibility'.

What suggestions can we give economists so that the relationship between them and politicians becomes slightly smoother? The first thing economists have to do is not to doubt

any data politicians provide them (presumably after a cosmetic surgery). Economists must not question data quality. But that is difficult for genuine economists and so they would have to endure unfavourable opinions of themselves by politicians anyway. Bangladesh's data quality ranks the fifth out of five layers, and politicians have practically no pressure to upgrade its rank - probably because less manipulation is possible once data quality steps up in the global ranking scale.

The acrimony between politicians and economists will get stronger since our Parliament is likely to gradually turn into a club of lobbyists and businesspersons who will architect all lawmaking in favour of the tycoons and magnates - simply put, the producer class will brush the larger but powerless consumer class aside. Only economists can protest this damaging transformation - both morally and theoretically. Economists find this trend detrimental to the rise of small enterprises, competition, and the market economy - the root mantra of growth acceleration in a developing economy. Politicians crave concentration of power and control - a feature economists find inimical to inclusive growth and equity. A large segment of economists are in favour of globalisation and openness; most politicians see it as a scheme against them to defuse their local-level hegemony.

It is likely that income inequality will edge up when a country is registering respectable growth. But economists have a medicine for it, i.e. progressive income taxes particularly on the super-rich and spending the money for infrastructure, education, and health. This medicine might be a bitter pill for politicians to swallow. We live in a society where top loan-defaulters and high-scale money launderers are deeply linked with powerful politicians whose 'moneyed friends' find the criticisms of genuine economists unpleasant. Hence, economists gain a sense of distrust from politicians, possibly in a show of solidarity with their 'friends in need'.

The writer is a guest faculty at the Institute of Disaster Management and Vulnerability Studies (IDMVS), Dhaka University. E-mail: birupakshapaul@gmail.com



SOURCE: SANDESH

prosperous Bangladesh with equity. Politicians often find economists problematic apparently because they divulge the unpalatable truth on economic indicators. The situation becomes worse when politicians prepare for an election and economists forecast dull growth figures or high inflation numbers. The tendency of politicians in power is to pressurise the central bank to print more money before election. If the governor is a rigorous economist by training, his/her relationship with the regime turns sour unless s/he is too compliant with aspirant politicians in power.

discharging their duties. Pakistani army-backed rulers loathed development economists who unequivocally suggested their government to reduce military spending and augment allocations behind health, education, and social safety. The Myanmar junta did not let economists grow in their country for decades. As a result, Burmese economists either had to flee or manufacture new theories about the benefits of having a strong ruler at the helm. Now, the scenario has changed, although Myanmar is producing more bureaucrat economists instead of pure economists who urge for

LETTERS TO THE EDITOR

letters@thedailystar.net

Removal of Lady Justice - a shameful act

We are stunned to see that the statue of Lady Justice was removed in the dead of night from the premises of the Supreme Court. Beautiful sculptures are a work of art and the pride of a country. Our faith in justice in the country has vanished along with the removal of Lady Justice.

How could the government bow down to the demand of some quarters that had no importance to the government in the past?

Nur Jahan
Chittagong

Failing health from the heat wave

The extremely high temperature of the past few weeks has increased the sufferance and stress levels of civilians tenfold. The heat has been especially difficult to bear for the poor, who have to work under the hot sun in less than comfortable conditions all day. Dehydration, diarrhea, and heat stroke are becoming more and more common. Many people have even been admitted to the hospital.

Under the circumstances, I would like to request the Health Minister to arrange for peripatetic medical services (i.e. sources or services which are flexible and can be deployed where and when needed, rather than from one fixed place) for the masses, focusing particularly on providing pure drinking water, saline and other basic medical facilities.

Ratan Karmakar
By email