

'UNNOYONER' BUDGET

Understanding the budget during the era of development

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When a government comes to power through fairly questionable means, there are certain phrases, myths and terms that are perpetuated. So much so that we cannot but walk a few metres before encountering them, over and over again, until they are etched into our social imagination. For the Awami League government, the turn of catchphrases or myths, as I prefer to call them, began somewhere around 2011. Until then, their myths revolved around 'secular', 'war crimes' and 'justice'. The shift from 'war crime' to 'unmoyoner mohashorok' took place without any one really noticing. But suddenly you could not step out into the streets of urban and rural centres without encountering a banner, a placard or a gaudy life size cut out, all plastered with the term 'unmoyon'. We now live in the time of development, industrialisation, digitisation and aggressive transformation. There is a Vision 2020 and GDP rate growth to carry this myth forward. Most importantly, there is the budget, which gets larger every year, feeding not only the impulse of economic development, but also on the egos of every self-serving bureaucrat caught up in a profiteering frenzy.

Every June, without fail, Finance Minister Muhith declares that the next proposed budget is his best work yet. To understand the finer details of the budget, it's important to take a step back and analyse the political structure within which the budget exists. Bangladesh's political set-up, up until now, can be best described by a theory known as clientelism. Which, if simplified, means that there are leaders who are patronised by clients, in exchange for favours and resources. This is quite evident if we look at the massive and ridiculous coalitions that have formed in the past (AL-Jamaat, AL-JASAD, BNP-Jamaat) which betrays political ideologies. In this framework, budgets are politically motivated by future elections, especially as one is coming next year. As it stands, Awami League's biggest clients are Hefazat Islam (whose constituents are mostly rural and lower to lower-middle class) and the upper class, and pandering to their ideological, social and economic demands has become a priority. The urban middle class and lower-middle class, who are hurt most by the budget, can be ignored because of two reasons-voter suppression and weak civil organisation.

Why is there VAT on everything?

What the government has failed to realise is that leaving the middle class behind will, in the long-run, be worse on the constituents they are aiming to woo and might trigger a potential collapse of an economy that has been hurtling forward with blinders. In his budget, Muhith has proposed a flat 15 percent VAT (Value Added Tax) on many goods and services. This signals two things—one, that AL has identified the consumption of goods and services as the most important part of their revenue collection and two, that they are okay with suppressing middle class consumption. If we study the budget closely, basic amenities are exempted from VAT, such as rice, lentils, cereal, sugar, fish etc, which are consumed by all classes. However, there is three times as much VAT on jewellery, six times as much to construct a building between 1100-1600 square feet, and twice as much VAT on English medium schools and eating at non-air conditioned restaurants—all of which are largely consumed by the middle classes. At the same time, small traders will benefit from an increase in VAT exemption in their yearly turnover from 80 lac to 1.5 crore taka. Medium-sized firms, however, will see their VAT and taxes go up, while the multi-million dollar conglomerates and multinationals have a thing called offshore accounts, and are beyond the purview of civil law.

In fact, VAT is the single largest source of revenue for the budget, clocking in at 36.8 percent of the total 4002 billion taka, followed by income tax which amounts to 34.3 percent of the revenue scheme. And with the government insisting on applying a Tax Deduction at Source, job holders will see their taxes slashed before their salaries make their way to them. In short, there is a massive squeeze on the middle class, who will feel reluctant to consume at such high prices. We predict that over the coming year, lots of middle class business owners will be forced to shut down or else sell their firms to large conglomerates, which will further monopolise most industries. To simplify, lots of people will lose their jobs and sources of income as smaller firms in garments, tannery and other industries move on. Coupled with the excessive VAT on certain amenities, there will be a widening gap between the standard of

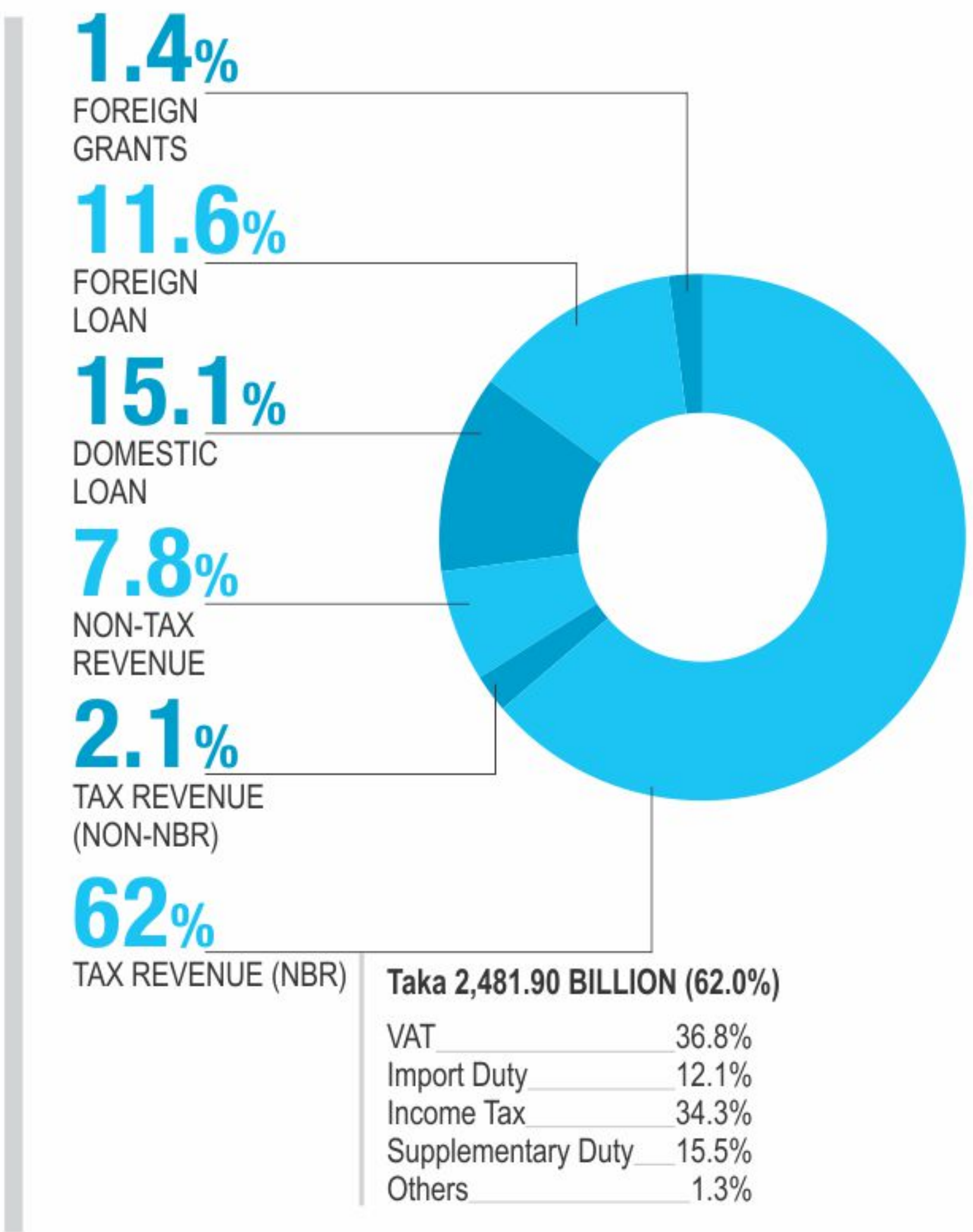
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BUDGET ANALYSIS

NON-DEVELOPMENT & DEVELOPMENT BUDGET: 2017-18

(TAKA 4,002.66 BILLION)

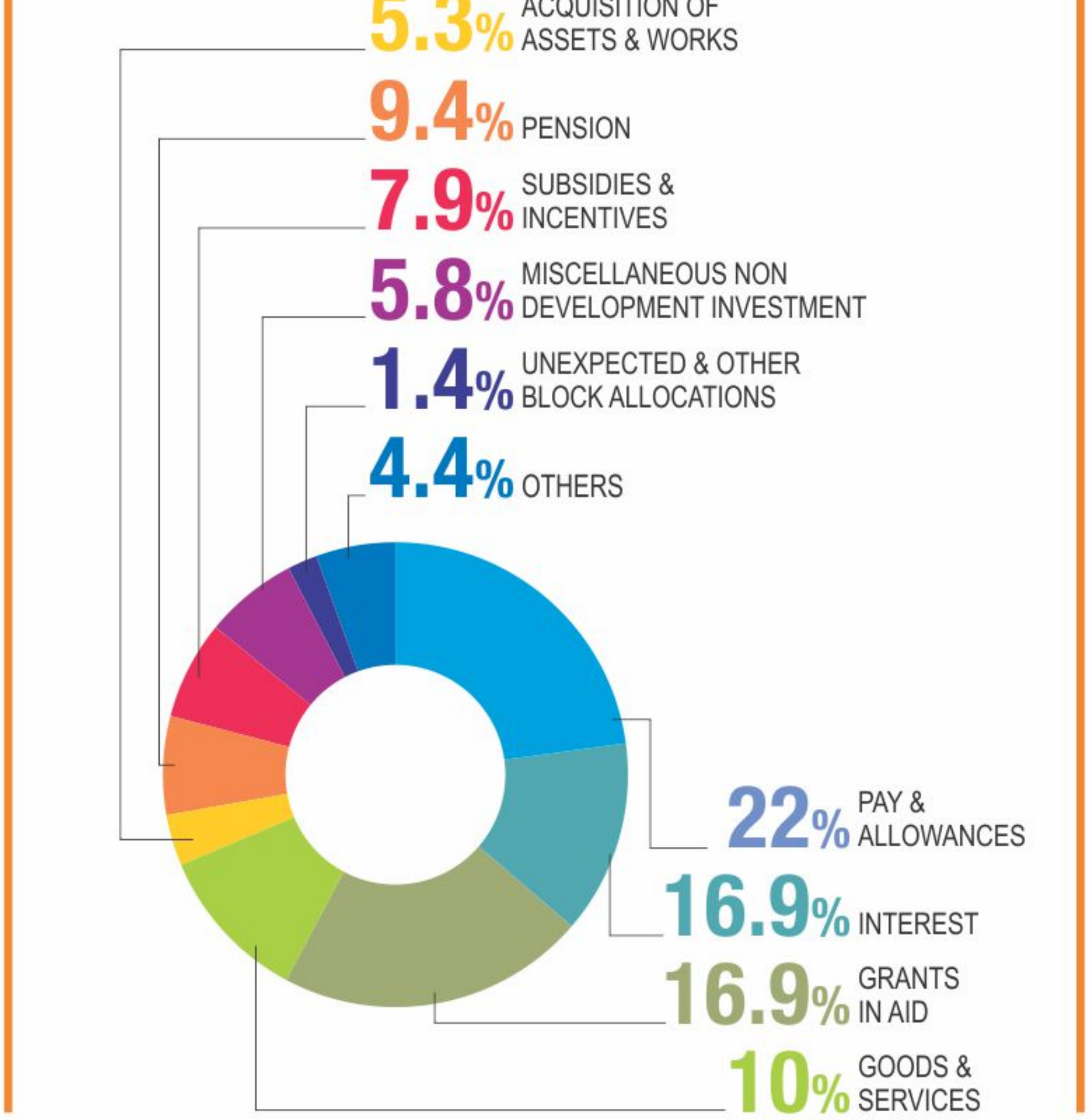
Resources Coming From



NON-DEVELOPMENT BUDGET 2017-18

(TAKA 2,450.14 BILLION)

Economic Analysis



BUDGET ANALYSIS

UNNOYONER BUDGET

After page 12

living of the rich and the middle classes, who will over time disappear.

Why am I paying the banks to save?

Muhith has also proposed to introduce an excise duty on savers to 'encourage investments'. This means that anyone

who keeps over 1 lac taka might end up paying the banks over time to keep their money. The low interest rates on offer (sometimes between 2-3 percent) along with the duty will mean that people will not want to save money. In 2016, it was evident that people would rather save or spend their money than investing it into a business. In February 2016, consumer credit (which means things such as car loans, personal loans, marriage loans) reached a record 8368.80 billion BDT,

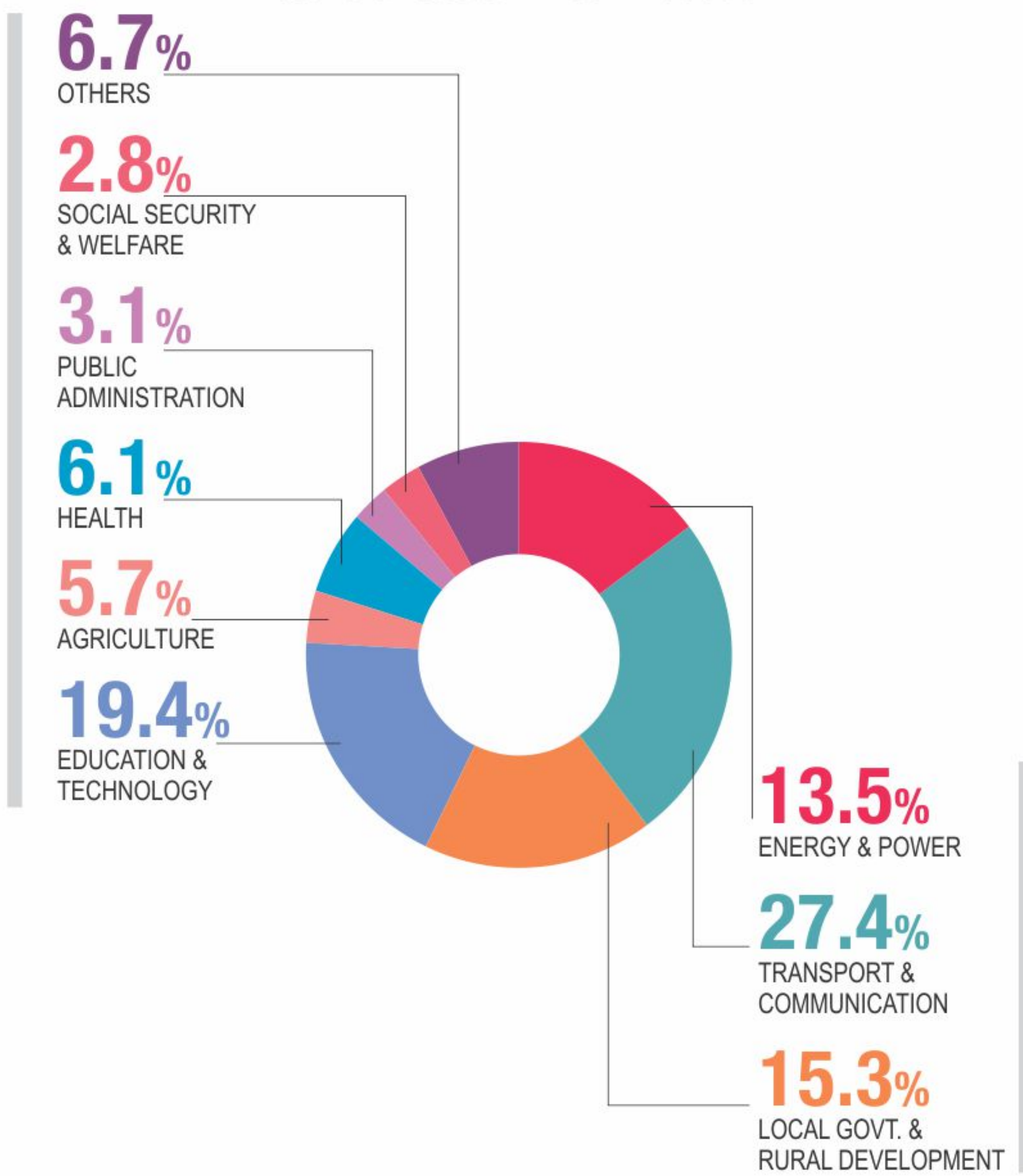
consumer spending also reached 5692703 billion BDT and personal savings reached 4328.3 billion BDT, another record. All of these point to the fact that no one wants to invest in businesses. In fact, the striking feature was that there was a higher amount of credit for consumption than there was for investment in the private sector (7054.79 billion BDT). Saving money, especially for the middle class, has been decreed a sin. The government hopes that the negative interest will result in higher investments into productive work. But not many people want to invest. And the reasons are there for all to see—mega projects take decades to complete, the stock market is rife with speculation and backroom dealings, there is bureaucratic red-tape, and with it bribery, at every step of the investment process. At the same time, banks continue giving out loans that they cannot recover to people with political and financial clout. In the last year alone 11,000 crore taka of loan went bad and the banks could only recover 5 percent of it. Indeed it was foolish to hope that negative interest alone would stimulate investment, because no tangible steps have been taken to restructure the investment process. The worst case scenario for this would be that people start taking money out of banks and putting them in informal savings schemes which makes them vulnerable to fraud. The banks, in turn, would have less money to circulate and would give out fewer loans, which, coupled with their history of bad loans, would slow local investment down to a standstill. The famed saviour of the Bangladeshi economy, remittance, might not be able to bail the state out of this hole as it has been stagnating at some of its lowest levels since 2013.

To perpetuate myths around things such as GDP and Vision 2020, the state needs to generate large amounts of revenue. Most of this will go to the payment of government servants and, astonishingly, the second largest payment will be on interest of the various loans (16.9 percent) that the government has. This debt burden will over time become unsustainable as the middle income groups fall lower down the income scale and there's no one left to buy all the things which have VAT on them.

DEVELOPMENT BUDGET 2017-18

(TAKA 1,552.52 BILLION)

Details of Sector-wise Allocation



It is useful to revolt

An ongoing research by the Center for Bangladesh Studies (CBS) has found that inequality is at record levels in the country in terms of income. The income of a household in the top 10 percent was 1000 percent more than the income of a household in the bottom 40 percent every month as per the government's latest available data. The aggregate demand of an economy is the amount of money being spent on goods and services. With the imposition of VAT and excise duties, the aggregate demand will over time falter and the economy will come crashing down from its unsustainable 7 percent GDP growth rate. The latest budget points to a not-so-distant future of a recession where harsh austerity measures will be put in place by an increasingly authoritarian government.

The Finance Minister has tried to brand the budget as poor-friendly by pointing to the fact that there's no VAT on basic amenities and tax relief for small traders. But in truth there is nothing poor-friendly about this budget at all as there is no redistribution of resources from the upper scales of society. In fact, the budget will create a much more unequal society, with those in the middle now being pushed to the bottom. At times such as this, it becomes very important to organise against the government's aggressive development agenda and resist the narrative of GDP equals prosperity. This year's budget is less Vision 2020 and more Vision 2018 and it is precisely because of such short-term agendas meant to gain favour amongst clients that the AL government will never come close to implementing a democracy while they are in power. Budgets will come and go, but the gap between the rich and those that survive on their daily earnings will get wider. This budget shows that the only vision AL seems truly committed to is holding on to power.

* Center for Bangladesh Studies (CBS) is hosting a workshop on the political economy of the budget on Saturday, 10th June from 10am to 2pm. Those interested are requested to join for a more detailed discussion.

The writer is a research fellow at Center for Bangladesh Studies (CBS).

ABOUT TOWN

YOUNG STORYTELLERS
INTERACTIVE WORKSHOP
Organiser: Clay Station Dhaka and Buckets Engineer
June 10, 10 am - 1 pm, Clay Station Dhaka, House 28, Road 20, Block K, Banani

ALOR ALAP
4TH LIGHTING WORKSHOP
Organiser: Biralpakhi Cine Club
June 9-10, 9 am - 6 pm, Studio 6/6, 6/6 Aziz Moholla, Joint Quarter, Block F, Mohammadpur

BODIES THAT THINK
WORKSHOP ON
Organiser: Cholo Lathi Kheli : The Revitalisation Project
June 16, 10 am - 12 pm, Bangladesh Shilpokola Academy