



ILLUSTRATION: **BIPLOB CHAKROBORTY**

FY24 budget ignores fiscal policy as a tool for equitable growth



Dr Rizwanul Islam
is an economist and former special
adviser to the Employment Sector,
International Labour Office, Geneva.

RIZWANUL ISLAM

Inequality has been growing in Bangladesh over the past couple of decades or so. Any effort at halting this process and reversing the trend has to start from a political commitment, an understanding of the factors at work, and adoption of necessary measures to attain the goals.

Instruments of fiscal policy – viz, policies for generating revenues and allocating public expenditures – are potential tools for attaining the twin objectives of economic growth and income redistribution. For example, lower tax rates on low-income groups can result in higher post-tax incomes in their hands, thus enabling them to spend more. Higher expenditure on goods and services, through expanding markets, can create an incentive for investment and output growth. Thus, the goals of equity and growth can be attained simultaneously. On the other hand, the lowering of taxes on profits can be used as a means of promoting growth through the investment route. That route is expected to generate incomes in the hands of lower-income groups indirectly through employment growth which may or may not materialise.

Fiscal policy instruments help move towards a higher growth trajectory and an equitable and just society when an economy relies more on direct taxes, because they can be made progressive. For example, rates of income taxes can be varied by income groups – with progressively higher rates for upper-income groups. Wealth taxes can be progressive if imposed on wealth above a certain level.

Examples of progressive taxes and equitable income distribution are present in the Nordic countries (e.g. Norway, Sweden, Finland, Denmark). In these countries, tax rates for high-income groups are quite high, and income distribution is more equal than other capitalist countries. The rich people in these countries do not resent high tax rates simply because the revenues generated through taxes are utilised efficiently, and benefits are received by the people. Furthermore, the process of tax payment is smooth and hassle-free, and the use of taxpayers' money is transparent.

Indirect taxes are by nature regressive, and hence a greater reliance on them go against the principle of equity. For example, VAT and import duties are usually borne by buyers of the relevant goods and services, irrespective of their levels of income. Buyers of all income groups bear these taxes at the same rate. Of course, some nuances can be introduced by using multiple rates – with lower rates for items that are more likely to be bought by the lower-income people in larger quantities.

Tax policies in developed countries usually vary depending on the political party in power.

Conservative parties (e.g. Republicans in the US, Conservatives in the UK) usually favour low corporate taxes as a means of encouraging businesses to invest. The argument is that low taxes will encourage investment, and hence growth of output and employment. Democrats and social democrats, on the other hand, favour lower rates of income taxes for lower-income groups and higher expenditures, especially on infrastructure and social sectors like education and health. Lower taxes for low incomes would result in more take-home income for such people, which, in turn, should encourage investment through the multiplier effect of a rise in consumption expenditure.

Going beyond taxes, public expenditure can be used to provide benefits to the poor and lower-income groups. Examples of such expenditures include: i) free healthcare for people of low-income groups; ii) education grants for children of such groups; iii) employment programmes for the poor; and iv) social safety nets for the poor.

The tax regimes in Bangladesh are more dependent on indirect taxes like VAT, import duty, etc, and hence are regressive in nature. The incidence of such taxes is usually on the consumers, irrespective of their income levels. In the budget for FY2022-23, the rates of corporate tax were reduced. Although they have been kept unchanged in the proposed budget for FY2023-24, the overall policy environment remains geared towards providing favours to big businesses. This kind of policy is not only not conducive to reducing inequality, but they help exacerbate it.

Historically, issues of equity and social justice have not been given much importance in the process of budget formulation in Bangladesh. Although there is a brief mention of this issue in the budget speech for FY2023-24, the rhetorical nature of this mention is exemplified by the continued reliance on indirect taxes, reluctance to raise direct taxes (e.g. income tax) on the upper-income groups, and neglect of wealth and inheritance taxes as a means of taxing those who are capable of paying taxes. Instead of doing so, the more regressing path of relying on indirect taxes has continued. The latest example of such an approach is the mandatory contribution of Tk 2,000 irrespective of whether a person has taxable income or not.

Currently, income tax accounts for only a third of the total tax revenue of the country. The rest comes from VAT, import duty, supplementary duty, etc. Revenue from income tax registered the lowest growth during July-January period of FY2022-23. Direct tax-GDP ratio declined over almost a decade. No attempt has been made to reduce the dependence on indirect taxes.

The only notable effort to raise

revenues is to expand the tax net. This, of course, is desirable, because out of the 40 million people who are regarded as capable of paying taxes by the National Board of Revenue (NBR), only 8.8 million have TIN and 3.2 million submitted returns in FY2022-23. However, reliance on only this for raising revenues and taxing people even if they don't have taxable income show the government's attitude towards inequality.

While efforts are needed to expand the tax net, not considering additional measures like raising the tax rates for higher income slabs and ignoring the possibility of wealth tax are indicative of the lack of seriousness regarding the issue of equity and social justice.

Coming to public expenditure, beyond free primary education, there is very little by way of pro-poor policies. Likewise, in health, community clinics were ostensibly thought of as a means for providing health care to the poor, but the quality of services provided through them is a big question. Also important is the issue of healthcare for the urban poor.

Productive employment is an important means of generating income for the poor and low-income people, and hence policies in this area can have important implications for equitable growth. But the proposed budget, like its predecessors, offers precious little in terms of incentives for job creation by private entrepreneurs. The lone paragraph on the issue in the speech mentions that the government is "implementing suitable programmes for sustainable employment generation," although there is nothing more on what those programmes are. In the paragraph on industry, export diversification and support to labour intensive industries are mentioned, but nothing specific is seen on how to achieve such goals, and especially on how non-RMG labour-intensive industries can be promoted.

Programmes for job creation through infrastructure are common in developing countries, and are used especially when the growth of output fails to generate jobs needed to absorb the growing labour force. Although such programmes continue to exist in Bangladesh, allocations for them have remained static for some years now. In the FY2023-24 budget, the wage rate for such programmes have been raised to Tk 400 per person per day, but that is still lower even than the going wage rate in agriculture.

Social safety nets consist of a plethora of minuscule programmes, many of which were designed basically to serve political purposes. For example, even after the proposed increase to Tk 600 per person per month, the old age allowance will be just about one day's wage in the rural areas. The coverage, despite a small increase, remains small compared to the total number that is potentially eligible.

On the whole, it seems that fiscal instruments as a tool for equitable growth continue to be ignored in the budgetary process. If the government is serious about the issue of equitable growth, it can undertake measures necessary in the areas of revenues and expenditures that are well-known. What is important is the political will to do so.

How JFK would pursue peace in Ukraine



Jeffrey D Sachs
is a world-renowned economist,
academic, and public policy analyst who
serves as the director of the Center for
Sustainable Development at Columbia
University. He is also the author of "To
Move the World: JFK's Quest for Peace."

JEFFREY D SACHS

President John F Kennedy was one of the world's great peacemakers. He led a peaceful solution to the Cuban Missile Crisis and then successfully negotiated the Partial Nuclear Test Ban Treaty with the Soviet Union at the very height of the Cold War. At the time of his assassination, he was taking steps to end US involvement in Vietnam.

In his dazzling and unsurpassed Peace Speech, delivered exactly 60 years ago, on June 10, 1963, Kennedy laid out his formula for peace with the Soviet Union. Kennedy's Peace Speech highlights how Joe Biden's approach to Russia and the Ukraine war needs a dramatic reorientation. Until now, Biden has not followed the precepts that Kennedy recommended to find peace. By heeding Kennedy's advice, Biden too could become a peacemaker.

A mathematician would call JFK's

easy to fall into the trap of insisting that only the adversary should change their attitudes and behaviour. Kennedy is very clear, "We must reexamine our own attitude – as individuals and as a Nation – for our attitude is as essential as theirs."

Kennedy attacked the prevailing pessimism at the height of the Cold War that peace with the Soviet Union was impossible, "that war is inevitable – that mankind is doomed – that we are gripped by forces we cannot control. We need not accept that view. Our problems are man-made – therefore, they can be solved by man."

Crucially, said Kennedy, we must not "see only a distorted and desperate view of the other side." We must not "see conflict as inevitable, accommodation as impossible, and communication as nothing more than an exchange of threats." Indeed, said Kennedy, we should "hail the Russian

arms race. Agreements to this end are in the interests of the Soviet Union as well as ours – and even the most hostile nations can be relied upon to accept and keep those treaty obligations, and only those treaty obligations, which are in their own interest."

Kennedy emphasised the importance of direct communications between the two adversaries. Peace, he said, "will require increased understanding between the Soviets and ourselves. And increased understanding will require increased contact and communication. One step in this direction is the proposed arrangement for a direct line between Moscow and Washington, to avoid on each side the dangerous delays, misunderstandings, and mis-readings of the other's actions which might occur at a time of crisis."

In the context of the Russia-Ukraine war, Biden has behaved almost the opposite of JFK. He has personally and repeatedly denigrated Russian President Vladimir Putin. His administration has defined the US war aim as the weakening of Russia. Biden has avoided all communications with Putin. They have apparently not spoken once since February 2022, and Biden rebuffed a bilateral meeting with Putin at last year's G20 Summit in Bali, Indonesia.

Biden has refused to even



President John F Kennedy delivers the commencement address at American University on June 10, 1963, which later came to be known as the Peace Speech.
SOURCE: **JFK PRESIDENTIAL LIBRARY/WIKIMEDIA COMMONS**

speech a "constructive proof" of how to make peace, since the speech itself contributed directly to the Partial Nuclear Test Ban Treaty signed by the US and Soviet Union in July 1963. Upon receipt of the speech, Soviet leader Nikita Khrushchev told Kennedy's envoy to Russia, Averell Harriman, that the speech was the greatest by an American president since Franklin D Roosevelt, and that he wanted to pursue peace with Kennedy.

In the speech, Kennedy described peace "as the necessary rational end [goal] of rational men." Yet, he acknowledged that peacemaking is not easy, "I realize that the pursuit of peace is not as dramatic as the pursuit of war – and frequently the words of the pursuer fall on deaf ears. But we have no more urgent task."

The deepest key to peace, in Kennedy's view, is the fact that both sides want peace. It is easy to fall into the trap, warned Kennedy, of blaming a conflict only on the other side. It is

people for their many achievements – in science and space, in economic and industrial growth, in culture and in acts of courage."

Kennedy warned against putting a nuclear adversary into a corner that could lead the adversary to desperate actions. "Above all, while defending our own vital interests, nuclear powers must avert those confrontations which bring an adversary to a choice of either a humiliating retreat or a nuclear war. To adopt that kind of course in the nuclear age would be evidence only of the bankruptcy of our policy – or of a collective death wish for the world."

Kennedy knew that since peace was in the mutual interest of the US and the Soviet Union, a peace treaty could be reached. To those who said that the Soviet Union would not abide by a peace treaty, Kennedy responded that "both the United States and its allies, and the Soviet Union and its allies, have a mutually deep interest in a just and genuine peace and in halting the

acknowledge, much less address, Russia's deep security concerns. Putin repeatedly expressed Russia's ardent opposition to Nato enlargement to Ukraine, a country with a 2,000-kilometre border with Russia. The US would never tolerate a Mexican-Russian or Mexican-Chinese military alliance in view of the 2,000-mile Mexico-US border. It is time for Biden to negotiate with Russia on Nato enlargement, as part of broader negotiations to end the Ukraine war.

When Kennedy came into office in January 1961, he clearly stated his position on negotiations, "Let us never negotiate out of fear. But let us never fear to negotiate. Let both sides explore what problems unite us instead of belabouring those problems which divide us." In his Peace Speech, JFK reminded us that what unites the US and Russia is that "we all inhabit this small planet. We all breathe the same air. We all cherish our children's future. And we are all mortal."

CROSSWORD BY THOMAS JOSEPH

ACROSS

1 "Why don't we!"

5 Walk unevenly

9 Confusion

10 Pop stars

12 Flared dress

13 Cruller's kin

14 Sand substance

16 Anger

17 Beholds

18 Zany

21 Snaky shape

22 Disavowal

23 Singer Neville

24 Arthur's adviser

26 Used a chair

29 Of a major artery

30 Diamond corner

31 Scary shout

32 Serengeti setting

34 "My Fair Lady" lady

37 Beer type

38 Oxford parts

39 Clickable pictures

40 Knot of hair

41 Pitched shelter

DOWN

1 Easter flowers

2 Banishes

3 North African capital

4 Blueprint number

5 Jar part

6 Wedding words

7 One of TV's "Friends"

8 Like mice and men

9 Billiards shot

11 Choreography

15 Uncle Sam's home

19 Shortly, in poems

20 Racket

22 Surrealist Salvador

23 Museum focus

24 Dinero

25 Beethoven symphony

26 Ho Chi Minh City, once

27 Climb

28 Sign of sorrow

29 Cain's brother

30 Prepare for a jolt

33 Move like a moth

35 Buddhist school

36 Inquire

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