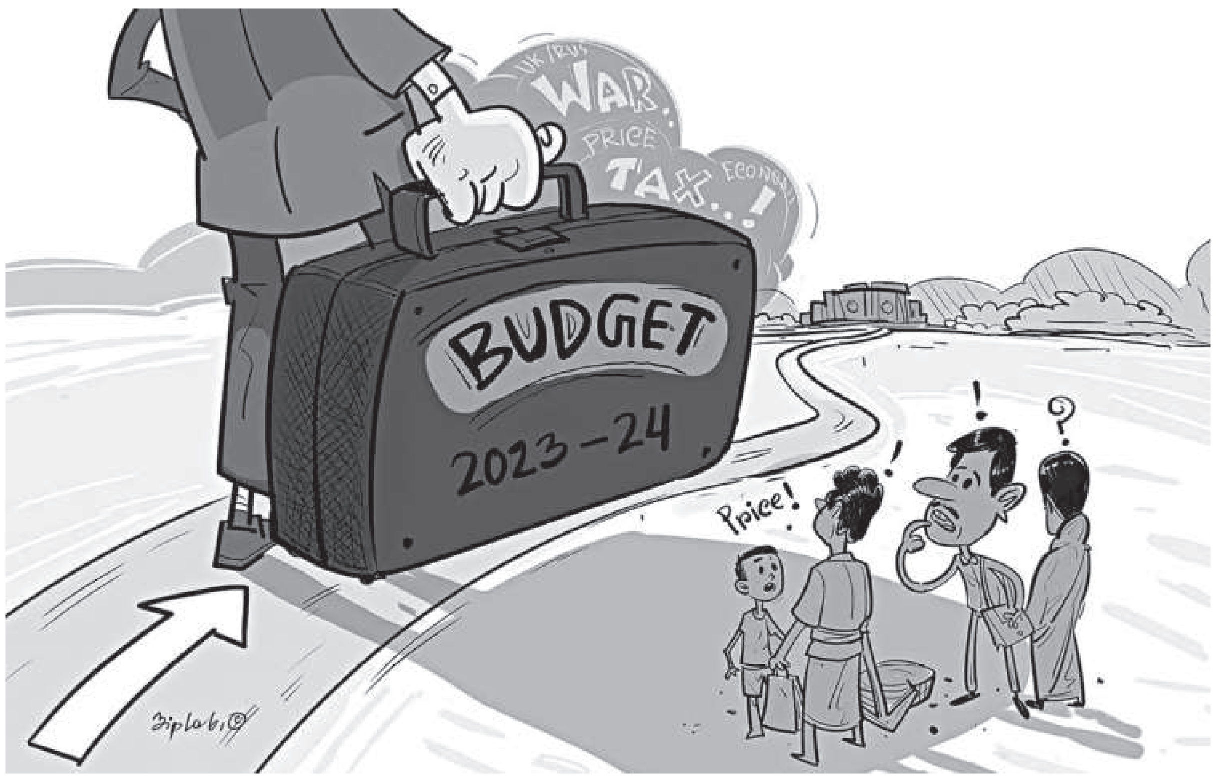

ILLUSTRATION: BIPLOB CHAKROBORTY

Why the FY23-24 budget will not curb the rate of inflation

AN OPEN DIALOGUE

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ABDULLAH SHIBLI

The finance minister announced the budget earlier this month and has been taking a lot of heat on a number of issues – the resource shortfall, the new tax proposals, and its impact on inflation, to name a few. The proposed budget for 2023-24 has a total outlay of Tk 7.62 trillion (a 15 percent jump) with development expenditures at Tk 2.59 trillion and non-development expenditures at Tk 4.11 trillion. The budget has been promoted as a "Smart Budget" with the upcoming elections in mind. A Ministry of Finance announcement proclaimed that the "Smart Bangladesh" concept is based on four main pillars which are smart citizens, smart government, smart society and smart economy. "The budget for the next fiscal year (FY24) will be the first budget towards building 'Smart Bangladesh'," added the release.

I do not envy the FM because his job is tough even under normal circumstances, and these times are anything but. There is heightened global uncertainty if we take a cursory look at the political environment, food and oil prices, and the total economic growth projections. One does not have to be Pollyanna to state that the budget estimates are but our best hope that things will turn out to be better than last year, and offer some respite for the hapless poor.

For my readers who are wondering who Pollyanna is, allow me a slight detour. "Pollyanna" is the name of the eleven-year-old orphan girl, the heroine in the novel by that name, and has become a byword for someone who, like the title character, has an unfailingly optimistic outlook. A nation, and I mean Bangladesh, facing gloomy days ahead can also collectively use the Pollyanna method to cope with the real difficulties and sorrows that, along with luck and joy, shape every life.

The FM is definitely a Pollyanna: he sounded like one when he declared, "The budget will be for the poor. There is no special pressure this time. The social safety net is increasing in a big way this time." But on close reading of the budget, we find that the budget is plagued by insufficient domestic resource mobilisation, an uphill battle to increase the tax/GDP ratio, an out-of-control inflation hammering the poor and the middle class, and the IMF breathing down the government's neck.

The government is fully aware of the headwinds it faces as it tries to push the GDP growth rate to 7.5 percent, as opposed to last year's actualised rate which was 5.3 percent according to an Asian Development Bank (ADB) report and 6.03 percent according to Bangladesh Bureau of Statistics (BBS).

The finance ministry has provided some supporting documents to back up the FM's goals. We learned that the budgetary allocation aims to tame inflation alongside the higher GDP growth trajectory. While the inflation rate broadcast by BBS is currently in the neighbourhood of 10 percent, independent calculations by South Asian Network on Economic Modeling (SANEM) and Centre for Policy Dialogue (CPD) put the effective rate at 15 percent.

Of major concern is the cost of living, particularly for the common person. The budget aims to bring down the inflation rate to 6.5 percent. Unfortunately, the budget will do nothing to ease the hardship and the budgetary crunch felt by the common man. "If a product's price rises 10 percent in the international market, it increases 30 percent in the local market. We have shown it item by item in CPD's analysis," said the Executive Director of CPD at a post-budget review session.

The FM of Bangladesh is in a unique position among his fellow global finance ministers. The budget is presented to the parliament and gets automatic approval, because of the sheer size of the ruling party's majority. Debate on the budget or political wrangling among different political parties or different wings of Awami League do not present any headaches or cause for worries. While it might be a little frivolous, it would not be too much to characterise the process as a "show" or even say that the parliament is rubber stamping the budget. "The budget is expected to be passed in parliament on June 26, a bit earlier than the usual tradition because of the holidays of Eid Ul Azha," reassures the media!

Bangladesh's budget spending has tended to fall short of the target. According to Fitch Ratings, the gap between budgeted spending and actual spending has oscillated between 20 percent and 30 percent of the projected spending target if we consider the last five years' statistics. Obviously two of the major determinants of the expected shortfall is the GDP growth rate and the revenue projections. "The Bangladesh government's projection that the budget deficit will remain broadly stable in the year to June 2024 (FY24) could be vulnerable if growth undershoots the authorities' relatively optimistic target," says Fitch Ratings. The same could be said about spending. "Bangladesh's fiscal outcomes have often diverged significantly from budget forecasts, with persistent underspending against targets," it notes.

As I mentioned above, deficit financing has been a sore point in Bangladesh's negotiations with the IMF. However, there is nothing wrong with budget deficits, since all other countries including the USA always has a deficit and just overcame a gruelling duel over the control of budget deficits and debt servicing.

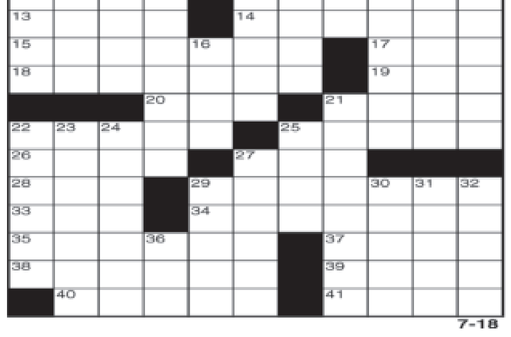
But one also notes that of late, our deficit is significantly higher than long-term trends. The resulting high level of government borrowing has caused liquidity shortages and crowded out private activity. Some sources apprehend that the proposed budget "continues the crowding out by envisaging a growth of 75 percent in domestic financing compared to two years ago." It is needless to mention, this might keep up the pressure on prices.

On a positive note, the budget document is presenting some initiatives to offer support for the vulnerable population, to renew the pledge to bring down inflation further, and to raise the tax to GDP ratio from 9 to 13 percent to reduce deficits. This ambition may present some problems. In the first 10 years of the Awami League's current rule, actual budget deficits averaged 3.5 percent of GDP, but in the last five years, it increased to about 5 percent. While deficit financing is expected to hold steady in the 5 percent of GDP rate range next year, the government has declared its intention to bring it down.

CROSSWORD BY THOMAS JOSEPH

ACROSS
1 Edinburgh native
5 Flight part
10 Folded food
11 Rotated
13 From the U.S.
14 Punctual
15 Space Needle setting
17 Young one
18 Paid tribute to
19 Anger
20 Charged particle
21 Go by
22 Grain to grind
25 Available, as a room
26 Trick
27 Simple card game
28 "— little teapot ..."
29 Grouser's forte
33 Silent assent
34 Banderas of "Desperado"
35 "Enough already!"
37 Notion
38 Peaceful
39 Religious group
40 Out of style
41 Former spouses

DOWN
1 Hide away
2 Carved gem
3 Mermaid's home
4 Slow mover
5 Hot, in a way
6 Fixed, as a piano
7 Gallery fill
8 Monogram unit
9 Regret
12 Hate
16 Easy gait
21 Dolphin's cousin
22 Daily routines
23 Unconfirmed
24 Dancer Duncan
25 Bakery buy
27 On the FBI's list
29 Michael of "Sleuth"
30 Almanac section
31 Flower girl, often
32 Bleating beasts
36 Parrot or puppy



7-18

YESTERDAY'S ANSWERS

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AI's transformative potential for the future economy

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M KABIR HASSAN *and* JOSÉ ANTONIO PÉREZ AMUEDO

The past few years have been a period of drastic changes due to several factors. The impact of Covid-19 has been notable, changing how we interact. Technology has been crucial in that sense, pushing boundaries that were previously unimaginable. Moreover, another form of technology, artificial intelligence (AI), has emerged, or at least gained massive traction.

John McCarthy, computer scientist expert on AI, explained that artificial intelligence is about making intelligent machines that perform tasks similar to human intelligence, but AI is not limited to methods that can be biologically observed. Under this definition, it seems that humans will be completely replaceable by machines. But the question is: can computers actually reach the level of human intelligence and perform tasks that only a human can do?

The truth is that artificial intelligence is not a very new thing in finance, since hedge funds have been using it for decades. They use algorithms to choose what stock to invest in, or to decide whether they should go long or short on a particular stock. It is said that retail investors will never be able to overcome the hedge funds consistently, and this is, in part, because those big fish have access to advanced tools such as machine learning that make it impossible for private investors to compete with them.

One of the main reasons why we seek an answer to the initial question is to determine whether a computer, in any of its forms, can perform the tasks we are currently undertaking. This concern stems from the fear that AI may outperform individuals in terms of efficiency and speed. If a company can replace its employees with machines, it stands to reason that it would save money and become more efficient. Consequently, if this holds true, it is evident that many individuals would lose their jobs, and certain professions as we currently recognise them might vanish within a few years. However, this outcome should not come as a surprise, as similar occurrences have transpired in the past with the emersion of technology.

But what would this mean for the economy? There is a group that believes AI will be a transformative force in the economy. According to Goldman Sachs, the widespread adoption of artificial intelligence could result in an annual increase of $7 trillion in global GDP within 10 years, approximately 7 percent, and result in a 3 percent boost in annual labour productivity. However, there are other experts who express scepticism and do not anticipate AI to drive accelerated growth, at least within a horizon of less than 30 years. So, the question remains: Who is correct and who is mistaken in their future predictions?

Again, if we examine history, we can observe that no single technology has ever brought about a drastic transformation of the global landscape on its own. Even inventions like the spinning jenny, often attributed to the industrial revolution, were influenced by several other factors. However, ordinary individuals are not primarily concerned about the overall impact on the economy, but rather about their own circumstances. People are more focused on whether they will lose their jobs or not, rather than whether AI will lead to a boom or a recession. According to certain AI experts, the introduction of large language models (LLMs) could potentially affect at least 10 percent of work tasks for around 80 percent of the US workforce.

However, when we examine the workforce across different countries, it becomes apparent that technologically advanced nations with higher levels of automation actually experience lower unemployment rates. This contradicts the conventional expectation that technology would result in job displacement. Moreover, technology has led to the development of better jobs, and the wages of lower-income individuals have increased more rapidly than those of the wealthiest. As a result, we observe a trend where new technologies are not necessarily replacing people's jobs but rather reshaping the traditional job landscape. Furthermore, these new jobs offer increased safety, better quality, and higher remuneration. This outcome is understandable since companies have become more profitable due to technological advancements, enabling them to pay higher wages to less skilled individuals.

But this time, the situation may be different. Some companies that provide support to students experienced a significant drop in their stock prices following the emergence of ChatGPT, and many other firms have announced plans to reduce their workforce if their jobs can be easily performed by AI. It has been estimated that around 15 percent of jobs carried out by US citizens will be lost due to the direct or indirect impact of AI. Consequently, a considerable number of individuals affected by AI will transition to industries that have not yet been penetrated by AI technology. Despite this job migration, it is expected that unemployment rates in the US will increase in the coming years.

It is difficult to believe that AI will completely replace human beings in companies, particularly in the next 20 or 25 years, especially in tasks that require interpretation. AI systems have been developed by humans who understand their functioning. Hence, they can be used as a complement to employees rather than as complete substitutes. AI systems are also prone to making mistakes, and companies would require humans who understand their workings to rectify those errors.

Even though this may seem like a drastic shift, it is important to note that the changes mentioned may take several decades to materialise. Significant transformations do not occur overnight, and companies will require time to test and implement AI technologies. These changes will gradually unfold in the coming decades. People are already aware of this and are preparing themselves for what lies ahead. Each year, more individuals opt to pursue degrees related to technology, while fields that are more susceptible to disappearing are being abandoned. Consequently, when the time comes, a larger pool of individuals will be equipped with the skills necessary to perform AI-related tasks and remain valuable to companies.

Finally, there are three points we would like to highlight. Firstly, the advantage that AI can bring to companies is undeniable. Artificial intelligence undoubtedly enables companies to perform tasks more quickly and efficiently than before its existence. However, it is difficult to believe that AI will completely replace human beings in companies, particularly in the next 20 or 25 years, especially in tasks that require interpretation. AI systems have been developed by humans who understand their functioning. Hence, they can be used as a complement to employees rather than as complete substitutes. AI systems are also prone to making mistakes, and companies would require humans who understand their workings to rectify those errors.

PHOTO: REUTERS

Secondly, we should mention that, as of today, AI systems are far from perfect. While we are often amazed by the range of tasks AI can accomplish, we also witness instances where they make mistakes, similar to humans. For instance, on the day Alphabet Inc introduced its chatbot Google Bard, it provided an incorrect answer to one of the questions, indicating that AI systems are not yet fully developed and reliable enough for companies to solely rely on them. Moreover, it is even less feasible for companies to replace employees with AI. In this regard, companies involved in AI development still have a long way to go in terms of progress and improvement.

Thirdly, it is evident that AI will lead to the disappearance of several jobs. Several decades ago, cars were manufactured manually by individuals using tools they could manipulate. They were responsible for handcrafting all the car parts and assembling the vehicles. However, with the creation of automated robots, most of these processes were taken over by machines, completely replacing human involvement in the entire manufacturing process. This shift allowed companies to produce more cars of higher quality, in less time, and at lower costs, resulting in increased profitability and improved wages for the remaining employees. Consequently, this contributed to an increase in GDP and had a significant impact on the economy.

However, while some jobs were eliminated, new job opportunities arose. Companies that developed these robots emerged and hired engineers to design and create these machines. Additionally, companies involved in car production required maintenance personnel to supervise the robots responsible for manufacturing the cars. Something similar happened when the Internet came into our lives, and something similar will happen with AI. Therefore, although there will be a transformation in the current job landscape, AI will not leave people without jobs. As certain jobs become obsolete, new jobs will emerge, and individuals will receive training to perform these new tasks instead of the outdated ones, similar to the occurrence of previous revolutions experienced by the human species.