



# The Financial Express

## An unequal society

Abdul Bayes | Saturday, 27 July 2019

All our celebrations of socio-economic success conceal the cruel reality that poverty-stricken Kuril slum lies in the heart of posh and prosperous Gulshan area; the top 10 per cent of the population grabs more than one-thirds of the total income while the bottom 40 per cent bags less than 10 per cent of total income. In terms of the gini ratio, the technical jargon to measure inequality, the coefficient is estimated to be hovering around 0.5 at present - rising from about 0.30 in the 1970s - thus reaching a 'danger level'. It may be so some element of inequality is inevitable in the process of economic development but the danger zone such as 0.5 is alleged to be the product of pro-rich or pro-urban policies.

Attempts have long been made in addressing the question of inequality but to no avail. Empirics show that a redistributive land reform in Bangladesh cannot be an answer to the question of inequality particularly in rural areas. The success of oft-quoted experiences of Japan and Korea are exceptions. Over time, the share of large land owning households in Bangladesh has been declining while about two-thirds of households are considered to be landless households. "The government is the biggest land-holder and some redistribution has been attempted from time to time with limited success owing to governance problems due to land grabbers" - says the Seventh Five Year Plan document.

But that does not mean that land reforms have outlived utility. There is an important need to shift attention from drastic to soft reforms. This could possibly be achieved by strengthening the land administration regime and related land market through an array of institutional, regulatory and fiscal reforms such as proper land ownership surveys, digitization of land records, simplifications of land transactions and land records etc. Imposition of proper capital gains tax on land transaction would add to revenue, reduce windfall capital gains and help stabilise land prices by reducing speculations. Again, reforms in tenancy market could help sharecroppers who are growingly dominating agricultural production. By and large, the soft approach in terms of reforms in land administration and transaction might impart limited success in reducing inequality led by land ownership.

Perhaps the Plan rightly finds a major way to help income distribution through human capital formation of the poor. Arguably this "will equip the poor to get better and higher paying employment. An educated and healthy labo(u)r force can also help increase the rate of growth of GDP while improving income distribution". The increased enrolment in primary and secondary schools from poor segment of the society are paying dividend. Thus the Plan aims to raise the share of public spending on education and health from 2.2 and 0.8 per cent in FY 2015 to at least 3.0 and 1.2 per cent respectively in 2020. Admittedly, the allocation has to be supported by "major improvement in the delivery of public education and health services through education policies, governance and institutional reforms."

There is no doubt that at the end of the Plan period, Bangladesh would witness a reduction in inequality over next five years as more of the children from poor group would attend schools and access health services. But in a regime where the rich gets quality education and health services than the poor, the inequality may not wane but widen. Thus a girl from kindergarten in urban areas could end up in software services while a girl from rural school would groan in a garment factory. To nip educational

inequality in the bud, society needs to have same type of schools across the board with same curriculum. This is a tall order hardly to be accomplished by policymakers and politicians whose children study in kindergartens, private universities or abroad. Again, within rural areas, solvent parents can pay for tutors while poor parents lack the capacity thus resulting in equality in the access to education. In this context, one would suggest that the government take a lesson from BRAC's experiment with pre-primary and primary schools where access to education for the poorest could be ensured with a sharp eye on the quality of education.

However, the Plan is also to pour public spending on rural infrastructure such as rural roads, irrigation and flood control. Availability of rural credit could be another important way to address inequality but the Plan document remains silent on the modus operandi excepting a line of appreciation for microcredit revolution that helped the poor with consumption and asset accumulation. The role of public sector in providing rural credit has remained peripheral.

The third important area relates to higher spending on social protection from 2.0 percent of GDP in 2015 to 2.3 percent in 2020. One can hardly disagree that spending on social protection is a must for addressing inequality but "there are also important concerns about the quality and targeting of this spending that needs urgent reviews and reforms". By and large, higher spending on education, health, rural infrastructure and social protection would cost additional 2.5 per cent of GDP - "a seemingly tall order in the present environment of public resource constraint...a strategy to mobilize this additional funding is certainly within the reach of public policy".

First, the government spends roughly 3.0 per cent of GDP on subsidies, of which 2.0 per cent of GDP is on energy. Subsidies in Bangladesh have not been as equaliser as expected e.g., higher education or in agriculture. The energy subsidy is no exception to which a miniscule of the poor have access. The Plan documents assumed that about half of the energy subsidy could be saved through price increases and better targeting for use in social service. Second, increase in personal income tax, value-added tax and local government revenues would be needed to mobilise additional resources for reducing inequality.

While the fiscal policy package could help with additional resources, the on-going 'political policy package' under the umbrella of governance remains to be no less important. We should not be oblivious of the fact that major sources of inequality are loan defaults, land grabbing and tax evasion. In this case, income distribution can be improved through better governance. The additional generation of 2.5 per cent of GDP required to social spending would only be effective in a regime of less corruption, better targeting, and quality improvement in public service delivery system. The grievous governance that Bangladesh is faced with may raise the gini ratio of inequality rather than reduce it. This is a fait accompli - the planners propose, the politicians disposes - instilled in inequality conception throughout all plan periods. Hope this time, it is a bit different.

We often forget that the main sources of inequality are loan defaults in banks, corruption in providing public services, illegal transactions inside and outside the country including capital flight, differentiated education system, tax policy, absence of rule of law and property rights etc. Unless these holes are plugged very soon, inequality could create a "tunnel effect - in Schumpeterian sense - where society could be at risk of losing its socio-economic achievements as anarchy would respect no law.

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