Chapter 9

SUMMARY AND CONCLUSION

Bangladesh emerged as an independent state in the year 1971 after a bloody nine-month war of liberation. Before independence this land was a part (East Pakistan) of the then united Pakistan that was created following the partition of India in 1947.

Chapter 1 (Introduction) points out the fact that at liberation, Bangladesh inherited a poor and undiversified economy, characterised by the vicious circle of poverty with underdeveloped infrastructure, stagnant agriculture, very poor industrial base and a rapidly growing population with very low per capita income. In the General Assembly Report, 1975, Bangladesh has been termed as one of the 28 LDCs of the world and more significantly enough, the World Bank and the IBRD experts considered it as 'the test case of development', for, if the problems of Bangladesh could be solved, the other less difficult problems could also be solved.

The country also suffered from export-import gap and saving-investment gap. Saving-investment gap was too wide for any meaningful breakthrough. It is noted that saving-GDP ratio of Bangladesh is pitiably low (around 4%) even compared with other low-income Asian developing countries. Moreover, the war of liberation caused serious damage to physical infrastructure and dislocation in managerial and organisational set up. At this critical juncture, virtually with no domestic resources and foreign exchange reserves, the full functioning of the economic system was neither possible nor practicable.

But the war of liberation raised high expectation for better standard of living through rapid economic growth among the inhabitants of the newly born state. This required the speeding up of the rate of capital formation especially through mobilization of internal resources in the economy. And with the fact that both money market and capital market in Bangladesh were unorganised and poor, and public investment constituted more than 80% of planned investment, the government had to take the full responsibility of mobilizing resources internally for maintaining a desired level of investment and financing development programmes guided by the moto of self-reliant growth.

The task was, however, very much difficult and it pushed the government into a grave dilemma. For, it needed more resources for development, but found virtually no possible pockets for extracting surplus through applying budgetary policies. At the same time it found it necessary to offer certain tax incentives which could encourage private savings and investments.

Also it is noted that from the very beginning the budget-makers of Bangladesh were aware of the objective conditions of Bangladesh and accordingly attempted to raise public savings by exploiting different possible surplus-generating pockets like affluent farmers, traders and nationalised industries. But the pressure of various competing interest groups within and outside the state power basically limited the scope of working of the fiscal instruments in the way of raising more resources for development.

In addition, high non-development expenditure, narrow tax base and its inelasticity, weak and corrupt tax administration, etc. further worsened the problem.

Under the above circumstances, with no real surplus available within the prevailing social system foreign aid became an integral part of financing development programmes and over time Bangladesh became an aid-dependent nation.

However, the new nation of Bangladesh started its budgeting almost from zero. For in Chapter 2 we observed that apart from the British colonial exploitation of about 200 years, this land had to pass through another 25 years (1947-71) under the control of the semi-colonial West Pakistan. During this period, the economic growth that had taken place in Pakistan, actually benefited West Pakistan at the cost of East Pakistan which became poorer in the process of development.

After partition in 1947, though a substantial effort on the part of the Central Government was demanded by East Pakistan to improve its socio-economic conditions, guided by the 'principle of balanced growth' of the two regions, it was never realised. On the contrary, the policy-makers of the Central Government acted in such a way that the initial marginal imbalance between the two regions of Pakistan intensified further during the whole period of united Pakistan.

In actual, the whole period of united Pakistan was based on the transfer of resources from East Pakistan to West Pakistan through a combination of direct and indirect methods particularly following the discriminating allocation in both capital and revenue budgets in favour of West Pakistan. Thus East Pakistan's share of development expenditure varied from 17% to 36% from 1950 to 1970 and the remaining larger share went on to West Pakistan. Allocation under the revenue budget also benefited West Pakistan since the major part of revenue expenditure was shared by administration and defence services dominated by the West Pakistanis.

An estimate showed that transfer of resources from East Pakistan to West Pakistan amounted to Rs. 31,120 million at the rate of about Rs. 1,556 million per year from 1947-48 to 1968-69.

In the case of distribution of foreign development aid and U.S. commodity aid also East Pakistan's share was 17% and 30% respectively during the period between 1947-48 and 1959-60. Moreover, it is observed that in the case of Central Government's sanctions of investment, loans and grants-in-aid to the two wings, per capita sanction to East Pakistan was very much low compared to West Pakistan.

The Central Government of Pakistan made all possible efforts to develop a wider socio-economic structure in West Pakistan especially by establishing two capital cities at Islamabad and Karachi. The developed infrastructure basically geared up the growth of the private sector in West Pakistan by reducing the cost of production and improving the scope of profitability for further investment. It is also found that the private investors of West Pakistan shared the largest part of loan distributed by the Central Government's credit-giving agencies like IDBP, PICIC and NIT.

In addition, by the early sixties, the Central Government took the policy of extracting surplus from agricultural and then re-channelling it to the private industrial sector. But East Pakistan with a larger share of export from agricultural products like jute and tea, was affected severely by this policy. In fact, the transfer of surplus from agriculture to industry meant a transfer of surplus from the agriculture of East Pakistan to the industries of West Pakistan as the majority of the import and export licence-holders as well as private industrialists were West Pakistanis. Also it is observed that a greater amount of foreign exchange earnings was diverted to West Pakistan from East Pakistan through a surplus in international trade and a deficit in inter-regional trade. An estimate showed that the net transfer of such resources from East Pakistan to West Pakistan was estimated to be Rs. 1050 million at the rate of Rs. 210 million per year from 1950 to 1955.

This direct method of extracting resources from East Pakistan to West Pakistan was also accompanied by other indirect methods. Indirectly, it was achieved through domination and control of private industries as well as trade and finance by the non-Bengali businessmen as a privileged group in East Pakistan. More significantly enough, most of the headquarters of the non-Bengali business firms were located in West Pakistan. Naturally, the profits earned by these firms in East Pakistan were diverted to West Pakistan, indicating a net transfer of resources from East Pakistan to West Pakistan.

The economic exploitation of East Pakistan by West Pakistan as noted in Chapter 2, was mainly possible for the very nature of the power structure of united Pakistan. It is observed that from the beginning to the end, Pakistan was never ruled by democratic government but by civil-military-bureaucratic elites dominated by West Pakistanis where participation of East Pakistani Bengalis was limited. More significantly enough, apart from the Central Government, the post of Chief Secretary and other key posts of the Government of East Pakistan were also headed by West Pakistanis whereas the East Pakistanis, posted in comparatively less important posts with lower echelons, had no room for independent action. Here lies the root of economic exploitation of East Pakistan by West Pakistan.

But the people of East Pakistan, politically the most sensitive people of the sub-continent did not let the above situation unchallenged. It is observed that the language controversy of 1952, together with the issue of economic exploitation rose a strong regional feeling among the East Pakistani Bengalis that ultimately took the shape of a strong regional autonomy movement in East Pakistan. The net result was the disintegration of united Pakistan and birth of a new nation Bangladesh, following the nine-month war of liberation in 1971.

It was thus natural that after liberation, the starting point of economic development of the newly born Bangladesh was not promising enough. For, apart from the economic exploitation, heavy gun-power was used during the war of liberation which destroyed almost all that was achieved in East Pakistan upto 1971. Even without the war damage, Bangladesh wouldhave been an intolerably poor and over-populated land with negligible natural resources and very low per capita income.

However, the GOB started its budgetary operation from the 16th December 1971. In Chapter 3, it is observed that the system of budgeting that developed in England from 1833 was adopted by the then British Indian Government under the India Acts of 1858, 1909, 1919 and 1935. Subsequently, after the partition of India in 1947, Pakistan also retained the British system of budgeting under the 'Pakistan Provisional Constitutional Order' of 1947, Constitutions of 1956 and 1962.

In 1971, Bangladesh being freed from the united Pakistan inherited the British system of budgeting from Pakistan. At the same time Bangladesh also followed the classification and codification system as embodied in the IMF's Mannual on Government Finance Statistics, 1974. However, the system of government budgeting has changed over time in view of the changing need of the society, especially after the partition of India and subsequently after the creation of Bangladesh in 1971. Also it is observed in Chapter 3 that the Constitution of the People's Republic of Bangladesh, 1972, has laid down some significant financial and legislative procedures in respect of constitutional/legal approval of the National Budget.

In practice, the GOB as observed in Chapter 4, prepares separate revenue and capital budgets. The revenue budget contains revenue receipts from various tax and non-tax sources of receipts for meeting the current expenditure. Capital budget on the other hand, contains internal and external capital receipts for financing development expenditure.

According to the Constitution of the Republic (1972), all accounts relating to receipts and expenditure are grouped into the Consolidated Fund and the Public Accounts of the Republic. On the receipts side, the Consolidated Fund of the GOB includes tax and non-tax revenues, grants, public debt and allowances. On the disbursement side, the Consolidated Fund is categorised into revenue expenditure and development expenditure. The Public Account mainly relates to the transactions such as State Provident Fund, Post Office Saving Bank Deposit, etc. Its expenditure comprises those disbursement which are set off against its receipts and the GOB acts as the custodian of the funds.

According to the procedure laid down in the preparation of the Bangladesh Budget all incomes and expenditures are grouped under budget heads called 'Major Heads', Sub-Heads, Minor Heads and 'Detailed Heads'. Again, the entire receipts and expenditures are arranged with unique 'Code' numbers and 'Descriptive' numbers for the convenience of identification by sources of income and direction of expenditure.

In Bangladesh the process of budget formulation is initiated by the Ministry of Finance through issuing budget circulars and directives to the Officers-in-Charge of the administrative units indicating the principles to be followed in projecting the expenditures and for estimating government income. The circulars and directives are made according to the constitutional provisions and their statutory rules. In addition, there are 'Estimating Authority' responsible for estimating income by areas of activity and watching the progress of collection and 'Controlling Authority' responsible for control over expenditure. However, it is the Finance Division of the Finance Ministry that after a series of discussions with the Controlling Officers of concerned Ministries and Divisions, finalises the National Budget.

The process of preparation of the development budget or Annual Development Plan (ADP) which relates mostly to investment within the framework of the Five-Year Plan, involves a close and continuous collaboration between the Planning Commission and the Ministry of Finance. It is the link between the Annual Plan as prepared by the Planning Commission and the Annual Budget as prepared by the Ministry of Finance. The Planning Commission sets rules/principles following which the schemes/projects are included in the ADP. The Ministry of Finance by custom, however, accepts the accounts of development programme as prepared by the Planning Commission and puts it into the accounting framework of its annual budget in the name of 'Demand for Grants and Appropriations' (Development).

The annual budget so prepared is presented by the Finance Minister to the Parliament of the Republic for discussions and approval. Constitutionally, 'Charged Expenditures' from the Consolidated Fund are subject to a general discussion but they are neither submitted to the vote of the Parliament nor any motion can be moved for its reduction. 'Other Expenditures' proposed from the Consolidated Fund is, however, submitted to the vote of the Parliament in the form of 'Demand for Grants'.

After the Parliament has discussed the 'Charged Expenditure' and vote on the 'Demand for Grants', the two are embodied in an 'Appropriation Bill' which, when passed in the Parliament becomes an 'Appropriation Act'. Finally, following the formal signature of the Head of the State, the budget becomes operational.

The same parliamentary procedure of discussions and approval is also applicable to the 'Supplementary Budget' as well as 'Excess Budget'.

But the expenditure of the 'Public Accounts' of the Republic does not require a similar treatment of approval as is required for the Consolidated Fund, because its expenditures are set off against its receipts.

At any time when the Parliament is not in session or stands dissolved, the President, according to the Constitution, may make and promulgate an 'Ordinance' authorising expenditures from the Consolidated Fund which have the like force of law as an 'Act of the Parliament'.

In Bangladesh there is a 'Delegation of Financial Powers', patterned by the Ministry of Finance for budgetary control and implementation. On the accounting side, however, the main responsibility of preparation and consolidation of the accounts of the

Republic lies with the Controller General of Accounts (CGA) and the audit side is taken care of by the Directors of Audit and the entire accounting and auditing responsibility of the Republic lies with the Comptroller and Auditor General (C and AG).

In addition, for budgetary control and implementation there are three Parliamentary Standing Committees with some assigned responsibilities and functions as laid down by the Rules and Procedures of the Parliament (RPP). These are the Committee of Public Accounts (CPA) for examination of the annual audited accounts of public expenditure, the Committee on Estimates (CE) empowered to judge whether the estimates presented before the Parliament are prepared with maximum possible efficiency and economy, and the Committee on Public Undertaking (CP) for the examination of the working of the Public Undertakings.

The nature of the present study summarised above is, however, introductory in nature. The actual analysis of the working of the Bangladesh Budget for the specified period starts from Chapter 5. It is observed in Chapter 5 that the total revenue receipts of the GOB increased from Tk. 2302 million in 1972-73 to Tk. 35767 million in 1984-85 or it increased at the rate of about 26% per annum over the years. This is, no doubt, an indication of the growth of the economy over time. But the performance of revenue collections was not promising enough from the resource mobilization point of view. For, the revenue-GDP ratios of Bangladesh were well below the international standard for the whole period under study.

The revenue structure in Bangladesh is distinctly dominated by tax revenue for the whole period under study. It is observed that more than 80% of the total revenue is shared by tax revenue and the rest less than 20% is shared by non-tax revenue. Again, though an increasing trend of non-tax revenue earning is recorded by the mid-eighties, its percentage share to the total revenue receipts remained quite stable over the years.

The low contribution of non-tax revenue to the total revenue earnings was mainly due to the poor performance of some of the major heads of non-tax revenue like stamp, registration, postal department, telegraph and telephone. More seriously enough, contribution from nationalised public sector enterprises was very poor and banks alone contributed more than half of the total earnings from this head. Though industries showed a marginal improvement over time, other heads contributed almost nothing. Heads like postal department, telephone and telegraph have showed even a negative share to the total non-tax revenue earnings over the years.

Also it is found that while taxes contribute more than 80% of the total revenue receipts of the GOB, direct taxes account for less than 20% of the total tax collections over the years. In other words, indirect taxes played a dominant role in the tax structure of Bangladesh. It is found that though the share of income tax (as one of the major components of direct tax) to the total tax revenue increased almost three-fold over the years, the share of direct tax as a whole to the total tax revenue remained almost invariable for the said period. For, a rise in the percentage share of income tax was accompanied by a fall in the percentage share of other direct taxes comprising taxes on property, land revenue, etc.

Furthermore, it is observed that the indirect tax structure is dominated by the foreign trade sector comprising import duty, export duty and sales tax on import. This sector alone contributed more than 80% of the total indirect tax collections and more than 50% of the total tax collections over the years. Taxes on domestic goods and services on the other hand, accounted for around a quarter of the total tax revenue of which excise duty alone accounted for almost the entire tax revenue under this head over the years. The notable feature is that only 5 or 6 items accounted for about 75% of the total excise tax yield indicating rather a very narrow tax base. This together with tax evasion, corruption and inefficient tax administration, etc. pushed the share of taxes on domestic goods and services to the total tax yield downward compared to the tax yield from the foreign trade sector.

In this connection, it is observed in Chapter 5 that the above findings confirm Due and Hinrich-Musgrave generalization and IMF's finding that to the early developing stage of a country, the major part of the government revenue is collected from indirect taxes in general and from foreign trade taxes in particular.

More significantly enough, tax collection from the foreign trade sector in Bangladesh was dominated by import duty and sales tax on imports for the whole period under study. It is observed that import duty and sales tax on import accounted for almost the entire tax receipts under the foreign trade head in the form of indirect tax. Also it is noted that more than half of the annual import bill of Bangladesh was paid for by foreign aid during the period under study.

But the contribution of export duty under the foreign trade sector, on the other hand, was very insignificant over the years which yielded even less than 3% of the total tax revenue; and by the eighties it became almost a negligible source of revenue to the GOB. This is a reflection of the fact that the economy of Bangladesh, experienced no structural changes in the field of domestic production which might have enhanced exports and thus self-reliance.

Under the above circumstances we, therefore, conclude that the economy of Bangladesh is primarily an import-oriented one and the imports are mostly facilitated by foreign aid, not paid by exports. And as such, these findings lead us to conclude further that even the revenue budget of Bangladesh especially the internal resource mobilization effort of the GOB is dependent on the availability of foreign aid.

But while the revenue collections of the GOB showed a poor performance from the resource mobilization point of view, revenue expenditure increased considerably over the years thereby reducing revenue surplus in the revenue budget or government net savings over the years. It is found in Chapter 6 that the total revenue expenditure of the GOB increased at a compound rate of about 25% per annum and constituted on an average about 7% of the GDP over the years.

In Bangladesh the percentage share of different heads of revenue expenditure to the total revenue expenditure remained almost invariable over the years. Thus the highest percentage share went to the head of 'Administration' for all the fiscal years. This reflects the fact that Bangladesh suffers from a heavy bureaucratic set up and the GOB had to pay a huge amount of money for the normal running of the government during the period under study.

The striking fact is that while the share of 'Education and Health' taken together to the total revenue expenditure remained almost invariable, the share of the head of 'Defence' to the total revenue expenditure of the GOB increased markedly over the years especially since the mid-seventies. Thus the overwhelming priority of 'Defence' expenditure to the revenue expenditure of the GOB is easily understood. More significantly enough, while the percentage share of revenue expenditure under the head of 'Administration' started decreasing gradually especially from the late seventies, the share of revenue expenditure under the head of 'Debt Services' and 'Defence' started increasing sharply.

The excess of revenue receipts over revenue expenditure denotes the government saving which is added to the domestic resources for financing investment activities. It is found that in Bangladesh on an average more than 83% of the total revenue receipts were absorbed by the government's revenue expenditure thereby adding very little to the government saving. Also it is noted that a large amount of subsidies in support of the agricultural development was paid out of development budget, and if included in the revenue budget, the surplus in revenue budget would have turned negative in many years.

The above finding leads us to conclude that the 'Please Effect' seems to be in operation in Bangladesh which states that governmental revenue expenditure is a direct function of the availability of revenue and thus additional revenue is associated with an increase in current spending and not with an increase in budget surplus.

More significantly enough, revenue expenditure in Bangladesh increased faster than the GDP over the years. In other words income elasticity of revenue expenditure in Bangladesh is not only positive but greater than one (on an average 1.7 for the whole period under study). This finding justifies the 'Wagner's Law' in Bangladesh which generalizes a gradual increase in the ratio of government revenue expenditure to national income. Also it is supported by a World Bank report which shows that in most of the developing countries government consumption was increasing more rapidly than GDP during the period between 1969-70 and 1979-80.

In Bangladesh, with time, as noted in Chapter 6, transfer payments like old age pensions, grants to local bodies and so forth have been greatly enlarged. These together with the expansion of public health and educational facilities, etc. along with the clamours of political parties for various concessions and benefits caused governmental non-development expenditure to be mounting over time.

Whatever may be the cause, revenue expenditure in Bangladesh which increased at an accelerated pace ever since 1972-73, can never be justified on any ground especially after 1975-76, when the policy of austerity in various Ministries, Divisions and Public Corporations was introduced and subsidies in many areas were almost withdrawn from the late seventies. This is an indication of the fact that whatever the economy of Bangladesh achieved through reorganisation and other measures was more than offset by an increase in other heads of expenditure.

We, therefore, conclude that while in a newly born country like Bangladesh it was not unnatural for the current expenditure of the government to increase at a high rate during the early seventies after liberation, such a high rate of increase in the late seventies as well as in the eighties was neither warranted nor natural. This contributed not only to misuse of resources but also to diversion of development resources away from the productive sectors and posed a serious problem to the domestic resource mobilization effort of the GOB.

Development expenditure of the GOB, as observed in Chapter 7, also increased steadily at the rate of 26.2% per annum which constituted on an average about 10% of the GDP over the years. A U.N. report, however, noted that the involvement of the GOB in the economic activities of the country was very low compared to that of other LDCs of the region surrounding Bangladesh.

A notable feature is that though agriculture and industry constituted on an average 55% and 8% shares in the GDP, they got almost equal shares in development expenditure particularly during the seventies. This reflects the fact that more attention was paid to industries than to agriculture in the successive ADPs during the period under study. More significantly enough, the share of agriculture to the total development expenditure declined sharply during the mid-eighties due primarily to the reduction and/or withdrawal of subsidies to the agricultural inputs following the World Bank's prescriptions.

Also it is observed that over the years successive governments of Bangladesh paid comparatively little attention to ensure better education and health facilities to the masses and to arrest population growth in the country. And on an average, education, health and family planning taken together constituted less than 10% share of the total development expenditure over the years.

Capital receipts of the GOB, as observed in Chapter 7, also increased steadily at the rate of about 18.5% per annum over the years. But the most striking fact is that the external capital receipts which increased at the rate of 20% per annum, alone constituted on an average more than 90% of the total capital receipts of the GOB over the years. This reflects the fact, at a glance, that the capital budget of the GOB was almost entirely dominated by foreign economic assistance.

In Bangladesh total commitment of foreign aid during the period under study amounted to $ 17119.8 million of which $ 12434.7 million or 72.6% was disbursed. It is found that disbursed foreign aid (project, non-project and food aid) was on an average about 90% of the development expenditure which constituted on an average about 10% of the GDP over the years.

More significantly enough, in most of the fiscal years under study, the share of disbursed aid exceeded the ADPs and financed part of the revenue budgets. Also it is found that foreign aid as percentage of total investment of the country had been in the region of 55/126% and the share of foreign aid in financing development budget had been in the region of 61/81% for the period between 1972-73 and 1981-82. All these indicate how far the preparation of the development budgets of Bangladesh is dependent on foreign aid.

Moreover, as a result of growing inflow of foreign aid, the burden of debt servicing has also been increasing which shrinked revenue surplus in the revenue budget by increasing revenue expenditure over the years. More seriously enough, debt repayments were far behind the new injection of loans into the economy and as a result, total outstanding foreign debt of Bangladesh was only increasing over the years. This exerted a heavy pressure both on the present and on the future generations of Bangladesh to come.

These were not all. In the revenue budgets, as observed earlier, more than 50% of the total revenue receipts were contributed by import duty and sales tax on imports of which about 45% were contributed by foreign aided imports during the period under study. And with the fact that in all these years more than half of the import bills of Bangladesh were paid for by foreign aid, it becomes evident that even the preparation of the revenue budgets of the GOB was highly dependent on foreign aid. In other words, foreign aid, in the one hand, financed development expenditure, and on the other hand, contributed largely to the internal revenue collections of the GOB during the whole period under study.

We, therefore, conclude that foreign indebtedness in Bangladesh has assumed such huge dimensions that it threatens eventually to enmesh the country into a 'debt-trap'. Under the above scenario, for self-reliant growth the essentiality of mobilizing an increased volume of domestic resources and an efficient management of the economy can hardly be overemphasised.

In Bangladesh mobilization of domestic resources greatly depends on tax revenue since taxation constitutes more than 80% of the total government revenue. Accordingly, as noted in Chapter 8, strategies for augmenting domestic resource mobilization through fiscal measures especially taxation were taken on priority basis during the different fiscal years as well as Plan Periods. But the projected targets were never realised and the tax system of Bangladesh was yet to show any positive improvement so far as tax-GDP ratios are concerned during the period under study.

In Bangladesh tax-GDP ratio changes marginally over the years and from the late seventies to the mid-eighties, tax-GDP ratios were almost invariable reflecting a decelaration in government's efforts for the mobilization of domestic resources through taxation. The two highest tax-GDP ratios are recorded to be 8.3% in 1980-81 and 7.5% in 1984-85 which are well below the average for all developing countries of the World (17.5%), Sub-Saharan Africa (17.6%), Asia (14.9%) and Latin America (17.9%) indicating rather a poor tax performance of the Bangladesh tax structure compared to other LDCs of the world.

More significantly enough, tax-GDP ratio of Bangladesh is even below the standard (10%) as suggested by the IMF study in 1979 especially for Bangladesh and projected targets of Planning Commission of Bangladesh during the FFYP (10%) and the SFPP (9.5%). In other words, tax administration, other things remaining the same, failed to mop up the tax potentiality of the economy at the desired level during the period under study.

Also it is observed that both the elasticity and the buoyancy value of the Bangladesh tax structure are very low. Built-in-elasticity of the tax system as a whole is found to be less than unity (0.85) and buoyancy value is found to be 1.03 for the period between 1975-76 and 1984-85. Thus tax revenue in Bangladesh increased less than proportionately to overall growth of national income without discretionary measures.

More significantly enough, base-to-income elasticities in Bangladesh for the tax system in general (except sales tax on import), and for direct taxes and taxes on domestic goods and services in particular, was greater than tax-to-base elasticities. This indicates the fact that tax collections failed to cover its bases. It is clear, therefore, that collections of government revenues in the form of direct tax as well as taxes on domestic goods and services may be increased through improving the efficiency of tax administration thereby covering successfully the bases of such taxes.

In Bangladesh as observed in Chapter 8, the very low contribution of direct tax as a whole to the total revenue is due mainly to the narrow tax base and poor tax net (low coverage). It is noted that a large number of self-employed persons who have assessable income do not pay income taxes by availing the loopholes of the income tax law as well as of its administration leading to tax evasion and corruption. Also it is noted that unearned incomes derived from speculative transactions, scarcity rents and intermediations, and trade in properties are not properly focussed by the fiscal system throughout the whole period under study. In addition, capital gains are also lightly taxes and more seriously enough, government employees do not pay any income tax.

So, the GOB needs to make extraordinary efforts to widen the base of direct tax by bringing self-employed persons within the tax net through designing a simple procedure in respect of assessments and payments. In addition, all unearned incomes should be brought under the income tax purview and some transactions such as trade in properties may be captured through taxation of capital gains with increased rate. Again, salary income of government employees should be brought under the scope of income tax net and a large amount of revenue can also be obtained from a vigorously enforced tax on a few wealthy persons.

Although the agricultural sector constitutes almost 55% of the GDP it could not prove itself as a significant source of revenue to the government for the whole period under study. In principle, taxation can be levied on inputs used, on the output produced, on the income generated, on the expenditure made out of those incomes and on the land itself. In view of the administrative and political problems associated with land tax as well as agricultural income tax, it is noted that the best method of utilizing land taxation is in financing local governments.

The indirect tax structure in Bangladesh is dominated by the foreign trade sector particularly import duty and sales tax on imported goods, financed mostly by foreign aid which is, no doubt, a source of uncertainty in revenue collection and hence not desirable. Tax base of domestic goods and services is narrow particularly because of exemptions, reductions allowed to a large number of items subject to excise and sales tax. So, to reduce the heavy relative dependency on the foreign trade sector, the domestic excise net should be broadened to new goods, and duties should be increased on types of goods previously lightly taxed. Yield of tax revenue from domestic goods and services may also be increased by reducing and/or withdrawing exemptions and deductions. In addition, import duties should be increased further and higher rates should continue to be applied to luxury items particularly.

Also it is noted that as very large revenue gains are not expected from the broadening of bases of excise and sales taxes, the area of VAT which is introduced in Bangladesh very recently, should be broadened as far as practicable, since revenue enhancement and tax neutrality arguments in favour of VAT are well documented.

Above all, the tax administration of Bangladesh causing rampant evasion of taxes and accumulation of arrear taxes should be improved which will help to raise a considerable additional revenue from the existing taxes. In addition, tax education making people more conscious about their tax obligations and tax officials being more honest may play an important role in the improvement of tax compliance by the people.

Last but not the least, a decisive political as well as administrative will need to be undertaken to collect more revenues internally through fair and efficient enforcement of the prevailing laws. For economic development guided by the principle of self-reliant growth, mobilization of greater resources internally should never be the second best option for the policy-makers of Bangladesh.

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