

**INEQUALITY IN  
BANGLADESH**

**Facts, Sources, Consequences and  
Policies**

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June 21-22,  
2014

*Bangladesh Economists' Forum*



*Working for the future of Bangladesh*

# INEQUALITY IN BANGLADESH

## Facts, Sources, Consequences and Policies

### A. Achievements

Bangladesh has received a good deal of positive evaluation on its performance in steadily accelerating rate of growth. It has received even more acclamation for its performance on improving the quality of life of its population. Some of the achievements may be highlighted as follows:

1. Bangladesh has made steady progress and is on target to fulfill the MDGs on poverty reduction and most others.
2. In their recent book *An Uncertain Glory* Dreze and Sen have showered praise on Bangladesh for outperforming India in ten of the 11 social indicators that they use despite the fact that its per capita GDP is just about half and the growth rate significantly lower; Among the six South Asian countries in Dreze and Sen's comparison, in 7 out of 11 indicators Bangladesh's rank unambiguously improved over the last two decades.
3. In the recently published Index of Social Progress devised by Professor Michael Porter and consisting of a very large number of non-income indicators of basic human needs, foundations of wellbeing and opportunity, among 132 countries in 2014 Bangladesh ranks 99<sup>th</sup>, above India which ranks 102<sup>nd</sup>.
4. In the World Bank's World Development Indicators (WDI) data on comparison of inequality among countries, Bangladesh appears to be a country with low inequality, shown to have a Gini index of only 32.

#### *A Closer Look*

Consider the above claims on the basis of the same broad set of data and evidence that were available to those who made those claims.

1. Most of the above claims and measurements use consumption, rather than income, as the indicator of current living standard. The argument that consumption is a better measure of "permanent income" than income is outweighed in a poor country like Bangladesh by the consideration that the poor often sustain consumption by liquidating assets or borrowing which are unsustainable.
2. Income inequality in Bangladesh has been considerably higher than consumption inequality and this inequality rose steadily – by the evidence of the Gini index estimated from the five HES/HIES between 1991/92 and 2010 – from about 30 in the early 1990s to about 45 or higher now.

3. Notwithstanding anything that follows, I accept that poverty has declined in Bangladesh though one might argue about the rate of its reduction, a measurement which is essentially arbitrary. Measuring change in poverty is rendered difficult by changes in the composition of consumption even by the poor, due to the rapidly-changing range of goods and services available in the past decades, changing preference even of the poor and changing relative prices. While various estimates – the most widely publicized ones made by the World Bank – show reduction in poverty, a rather striking fact is that according to World Bank’s international poverty line of \$1.25 per day Bangladesh had 43.3% people in poverty in 2010, which compares with 24.8% for Nepal, a country with significantly lower per capita income.
4. The same data source that shows that income inequality is much higher than consumption inequality also shows that the ratio of income inequality to consumption inequality has been rising through time. This means that if income poverty threshold is the same proportion of average income as consumption poverty threshold to average consumption then almost certainly the reduction in income poverty would be slower than the reduction in consumption poverty.
5. We know that the social indicators of development can vary a good deal between countries at different levels of development. Table 1 shows some indicators for a low-income country and for a middle-income country.

**Table 1: Social Indicators in a Low-Income and a Middle-Income Country  
An Illustrative Example**

Indicator	Low Income	Middle Income
Child malnutrition	50	21
Child (12-23 months) immunization	77	94
Infant mortality	62	30
Child (under 5 years) mortality	78	38
Total fertility rate	3.1	1.9
Teenage mothers (% of women 15-19 years)	42	19
Percent of births attended by skilled health staff	12	64
Percent of women receiving prenatal care	30	87
Primary school completion rate	65	97

*Source: World Development Indicators (WDI), World Bank*

6. You may have been wondering what countries are they. They are not two different countries, but the poorest and richest quintiles of Bangladesh population. They provide the most graphic picture of social inequality. The two columns might easily be thought to represent two different countries at different levels of development, one low income the other middle income, if shown anonymously.

**Table 1: Social Indicators for the Poorest and Richest Quintiles in Bangladesh**

<b>Indicators</b>	<b>Poorest Quintile</b>	<b>Richest Quintile</b>
Child malnutrition rate	50	21
Child (12-23 months) immunization rate	77	94
Infant mortality rate	62	30
Child (under 5 years) mortality rate	78	38
Total fertility rate	3.1	1.9
Teenage mothers (% of women 15-19 years)	42	19
Percent births attended by skilled health staff	12	64
Percent women receiving prenatal care	30	87
Primary school completion rate	65	97

*Source: WDI 2014.*

## **B. Sources of Inequality**

Change in the structure of output and income is the major source of change in inequality. Wage is the most equalizing component of income but its share in both rural and urban personal income has steadily fallen, contributing to the rise in inequality. Over the period under review the share of wages in total personal income has fallen by more than a third. Can this be reversed? By broadening the base of industrialization and expanding non-immiserizing employment-intensive growth it might be possible to reverse the process up to a point, but this, as I shall argue later, will ultimately level off. But in the medium term, this would be a powerful instrument of containing inequality. The task is immense: huge investment in both physical and human infrastructure and an overhaul of incentives in the broadest sense.

Principal sources of inequality are: income from nonfarm enterprise, land and non-land property and remittances from abroad. Income from nonfarm enterprise probably largely represents return to owned enterprise and is in this sense return to wealth. One might consider international remittance as also belonging to that category: relatively well-to-do households financed the export of some family labor which can thus be considered to be wealth sent abroad.

Remittances are returns from that wealth. This definition of wealth is to my mind very similar to the definition that Thomas Piketty has used in his recent book *Capital in the Twenty First Century*. Together the share of these “wealth” components has increased by nearly 30% over the period. These components are highly disequalizing in the sense that they principally accrue to higher income groups. Curbing the growth in these components is largely a self-defeating policy, leading to reduced rate of growth. A way must be found to tax components of these incomes that do not reduce incentives, an even more daunting task than the above. More on this in a moment.

The other available instrument is public transfer to the poor. Prospects for a large increase in this, large enough to make a difference to the change in income distribution, must in my view be discounted in view of clear obstacles, first, due to limited resources and, next, due to inevitable leakage on which more below.

Household surveys miss out much of the incomes at very high levels, perhaps because they are much less easily accessible and their incomes are difficult to capture by a survey enumerator. Serious researchers like Piketty have estimated their incomes from tax data for countries that were good in enforcing tax laws and recording tax data. In Bangladesh, as in most developing countries, distributional data are obtained from household surveys, thereby failing to capture much of high incomes. Tax data, if available, would probably not be much of an improvement.

Consider some of the most disequalizing components of income which have increased as proportion of total income very rapidly. I suspect that capital gains from exploding real estate and land values, much of it appropriated even though it is continually and exponentially rising, must be one of them. It is unlikely that a significant part of it has been captured in the surveys.

Undoubtedly the largest component of such income consists of what is often referred to as “black money”, incomes shared between those in a position to hand out scarce entitlements and their recipients. The dismantlement of the ISI regime has led to the emergence of an industry and trade regime which almost certainly means a much greater flight of earnings and capital which, if captured, would reveal extraordinarily unequal distribution.

This needs some explanation. First, I am not arguing that the dismantling of ISI necessarily leads to a more unequal trade and industry regime. Indeed ISI itself artificially and arbitrarily makes income distribution unequal, an argument that I have often made over many decades.

The question is what ISI is replaced with. If the distorted incentives for ISI are replaced by appropriate incentives for broader industrialization with non-discrimination for exports, actually higher effective exchange rates for “infant exports” – together with infrastructure development, removal of administrative bottlenecks – then it is likely that growth will be employment intensive and inequality will be contained. A decent system of taxation together

with some provision of protection to the poor should complement the process of inequality-averse growth.

But the predatory state in many developing countries including Bangladesh followed a very different path. Their predatory nature was exacerbated by the end of ISI under which the state had a necessary role in development policy. Consider a typical ISI regime in which the state dispensed high protection by licensing imports, distributing the licenses with high rent to chosen people with whom those exercising state power shared the rent, and created enormous profit for import-substituting industries. The other side of it was that the artificially high profit of these industries induced much of the rents and high profits to be invested in these industries, overcoming the lack of incentives due to undeveloped infrastructure etc. Rapid investment growth albeit much of it misdirected in inappropriate activities and techniques.

After the demise of ISI the same state power at the hands of predators could still be used to seek new avenues of rent appropriation and these were found in distributing contract for public procurement and favors meted out to trade and industry to overcome invisible controls that replaced the visible controls of ISI. Investment did not become more efficient because the choice among alternatives was not dictated by a competitive market but by who among the agents of the vendors had the best access to state power... One difference with the ISI is that the huge rents no longer have the incentive to move into productive investment; instead there is massive investment for it to go underground and seek flight abroad. This must be the additional undocumented component of income inequality that has become more massive than in the past.

Once again, let me be unambiguous that the demise of ISI or increased integration with the global economy *per se* does not deserve the blame; it is the failure to reform the predatory nature of state power that deserves the blame. Note that in our country the bitter fight between the two major parties has never been about the role of the state or the use of state power in development. On this they both have the same view about how state power has to be used to generate and appropriate surplus. The disagreement is about *who should have control over the levers of state power*.

If I am roughly right then how does one explain the agreement among both the parties and their governments about the actions and policies to achieve the progress in the social indicators? Dreze and Sen, while expressing bemusement, provisionally attribute the success of these programs to the cooperation between NGOs and the Government to foster a degree of mass mobilization focused on specific cost-effective targets with the minimal commitment of state funds. I wonder if the improvement in the averages of the social indicators, hiding much inequality of access to the services, was driven by the desire to provide a palliative to soothe potential public outcry against rising inequality.

### **C. Reasons for Pessimism**

Researchers have amply documented in recent years how the rise of inequality, often to an extreme level, has become a worldwide phenomenon. In many countries the superrich has neutralized the countervailing power of the state. Elsewhere, in most developing countries including, as I have argued, Bangladesh, the state power itself has been used to institute a system of surplus extraction that has been the major contributor to the polarization of the distribution of income. In either case, the containment of inequality would require a basic change in the exercise of state power.

I find it hard for state power in Bangladesh to give up this role which has become its *raison d'être*. Since I do not know how a fundamental change in the predatory use of state power can be brought about, I can see no major change in the trajectory of inequality.