Balancing producer and consumer interests

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In a market economic system, producers and consumers are two arms of the same body – the market. Consumers demand goods and services with their income while producers respond by supplying them. The interaction of demand and supply in the marketplace determine prices, and result in sales that generate revenue and create employment. Producers and their retailers submit to the consumer's wishes expressed in terms of buying power and choice of what and how much to buy or not to buy. In a free market, consumers typically have a wide degree of freedom on what their consumption pattern should be. Market prices, determined by the largely unbridled forces of demand and supply, signal consumer spending patterns and volumes to which producers and retailers respond. It is demand that creates supply; not the other way round.

In our own neck of the woods, markets are not completely free, partly due to what economists call 'market failures' and partly due to public interventions in the form of taxes and tariffs on local and imported goods. These revenue interventions done ostensibly to mobilise resources to finance public services and oversee equitable distribution of wealth result in some distortion of the market outcome, one of which is the impact on prices which deviate from the free market outcomes. Through tariffs on imports and consumption taxes (e.g. value added tax or VAT), on local sales prices paid by consumers are higher than what they would be in the absence of such taxes. Producers and their firms may be the first in line to pay tariffs on imports and taxes on local sales.

But at the end of the day, it is consumers that bear the burden of these tax instruments as producers pass on the tax burden to consumers in the form of higher tax-induced prices including mark up. Fiscal theory is replete with analyses of when and how much of the tax burden producers can pass on to consumers. In our market context, I would surmise that

much of the tax burden is shifted on to consumers, particularly those of tariffs. Otherwise, why would our producers clamour for higher tariffs on most consumer goods they produce for sale in the domestic market? Higher tariffs on competing imports raise the price of not only the imported product but also prop up the price of the domestic counterpart thus giving a boost to profits, at the expense of the hapless consumer.

In economic jargon, such high tariffs raise protection to import substitute production, at once raising profitability and reducing import competition – a win-win for producers of the import substitute. Such a coincidence of interests (of producers and the tax authority) is only valid up to a point (i.e. optimal tax/tariff rate); after that their interests diverge as higher rates start yielding lower revenue but still give higher protection. Firms that are focused on maximising profits in the short-term would love to see protective tariff rates go up and stay that way. What about consumers?

Come budget time, the revenue authority is focused on mobilising more revenue from taxes and tariffs, often mistakenly assuming that higher tax rates will yield higher revenues. Producer groups, of whom there are many, lobby hard to get direct taxes reduced as much as possible. As for indirect taxes like tariffs, their goal basically is to get higher tariffs on outputs they produce and lower tariffs on inputs which they source from imports or domestic suppliers.

In decades past when the economy was pretty closed with tariff and non-tariff restriction on imports, the budget, a government annual plan for spending and taxation, was so sacrosanct that the ministry of finance had to ensure the highest degree of secrecy surrounding its formulation, particularly with regard to the proposed tariff regime, advance knowledge of which could make or unmake millionaires. Such secrecy was a vestige of the colonial past where the British Chancellor of the Exchequer used to come out of No.10 Downing Street in London with the red briefcase that was supposed to contain all the secrets of the budget to be placed in Parliament. Though our Minister of Finance still needs a bag to carry the heavy file containing his long budget speech to parliament, the need for past secrecy is all but gone.

Participatory budget making through year long consultations with stakeholders is the order of the day. Though the final print is supposed to remain a secret until budget day the general

direction of tax and spending proposals and even some specifics are more or less known to key producer groups and the media. It is not difficult to postulate that the budget outcome produces gainers and losers depending on which groups wield the most influence on policymakers.

That brings us to the consultation process itself. Though interests of producers and consumers diverge as producers like to see higher prices for their products while consumers want lower prices and more choice, pre-budget consultations are conducted overwhelmingly with sundry producer groups often represented by apex trade bodies. Consumers, the largest stakeholder group, are all but absent from these consultations.

Take the case of tariff setting. A tariff on a consumer good helps to raise the domestic price of the product over the international price by at least the amount of the tariff. As such it is a tax on the consumer and a subsidy to the producer. It is a subsidy in the sense that without it the producer would have to sell at the international price, which is lower. Who pays this tax or subsidy? The consumer.

In the process, two things are happening. First, there is a significant transfer of resources from consumers to producers as long as the protective tariffs last. Second, the higher tariff-ridden prices restrain imports and limit the consumers' choice. These two costs are borne by the consumer ostensibly on the ground that producers create jobs and eventually they will become internationally competitive and will not need tariff protection. Question is, how long will that take? The period seems to be never ending.

When it comes to tariffs, the consumer seems to have no voice. During the stakeholder consultations pre-and post-budget organised by the chambers who represent producer and business interests put forth various proposals for tariff adjustments, understandably, to raise their profitability which can happen if output tariffs are raised or input tariffs are cut. In the past 10 years, input tariffs have been cut such that they now range from 1.0% to 10%, whereas output tariffs on consumer goods domestically produced are at 87% or more — all benefiting producers, at the expense of consumers. But nobody, not even the Consumer Association of Bangladesh, has raised the issue of how long should consumers continue to be taxed to protect producers.

While chamber groups are organised and wield great influence on policy, consumers – the much larger group – are not organised, and have little influence on tariff policy. Thus in the specific but important budgetary context of tariff adjustments, consumers lose out year after year. It is time someone focused attention on consumer interests as well. The onus for balancing consumer and producer interests rests squarely with the policymakers.