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IN SPECTRUM

Budget and Business Cycle

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Business cycle manifests fluctuations in economic activities that constitutes phases such as boom and bust and is generally propelled by prudent or imprudent economic policies. Though the fluctuations are not even like the movement of sine or cosine curves yet the economist use this pet term to indicate movement or growth in an economy. Probably, the term connotes that economic fluctuations move in tandem with changes in business conditions and obviously overall business conditions principally dictate the growth of an economy. There are many excellent economic theories behind this irregular and unpredictable movement of macroeconomic variables

such as investment, consumption, industrial production, home sales and corporate profits. During late sixties, as a first year students of economics we read sunspot theory of business cycle developed in 1875 by Stanley Jevons. That was appealing to us as agriculture was the predominant sectors of the economy contributing over 70 per cent of the GDP and the share of manufacturing sector was approximately 10 per cent. Sun-spots are storms on the surface of the sun that may affect the weather or climate conducive to agriculture. A change in agricultural output affect manufacturing sector through the link of input-output relations in the whole economy. It was satirical to us in those days on the plausibility of business cycle in the western world on the basis of this theory. The current perspective opened to us theory impregnated with the idea of both politics and economics instead of nature and we are ambivalent on the superiority over one another. There are instances when economics predominates over politics because well-being of a nation is the ultimate destination of any nation. Political leaders both in the developed and the underdeveloped world look for the interest of their own constituency on issues related to well-being of the community or interest of stakeholders in the political process to continue in the governing process. The platform on which the political parties focus their commitment on political, social, economic, cultural ideology differ among the different political parties on certain fundamental issues yet economic well-being is the main motive behind the governing process. It is important for a political party to look carefully just before an election how the pursuance of different policy tools such as fiscal policy, monetary policy or exchange rate policy helps to stimulates the economy to spur growth and thereby improve their party's re-election chances. The democratic credence dictates election at regular interval under an impartial election commission that ensure credibility and fairness in the electoral process and acceptability at a wider spectrum. The theory on political business cycle embody pursuance of monetary and fiscal policies that soothes the electoral voters in the penultimate year of the tenure and then reverse the course by more stringent measures such as raising taxes, cutting spending or slowing the growth of the money supply or upward revision of interest rates. This artificial boom and bust pattern in the economy through policy manipulation known as political business cycle is also a feature in the western world. Election episode in many countries testify this syndrome. The next national general election in Bangladesh will be in 2018. So, the budget for this year is important on two counts for the incumbent government; first, any innovation or bold steps in the budget proposal regarding the pattern of revenue earnings or expenditure may thwart the voter alignment to party and secondly, factors responsible for corruption and malpractices deserves genuine commitment of remedial measures from the ruling party. Indeed, budget is the operational instrument of both the monetary and fiscal policy and whatever is expressed through the budget is the government hidden agenda on fiscal and monetary issues. The budgetary process in Bangladesh is indeed democratic when we observe series of discussions between the government and the different stakeholders. Yet, it appeared in the budget speech that government was rigid on certain issues. The stringent enforcement of 15 per cent uniform VAT till the other day is a case in point though ultimately the implementation is deferred for the next two years. We now hear a little bit conciliatory tone on many other issues such as interest rate on savings instruments or the social security of the aged people. It is not fair to tell these flexibilities are the manifestation of what the political business cycle predicts but they show the willingness of the government to respect the opinions of different stakeholders. Indeed, there are many unsettled issues that the government should impartially consider for a breakthrough in the economic and political front. One crucial area is the reform of the banking sector and the independence of the Central Bank. Other areas are the historical slow implementation of Annual Development Programme, the leakage through money laundering and corruption that breeds black money. The writer is a professor of Economics, United International University

