

Sri Lankan president hands down war budget

Saman Gunadasa
13 November 2007

Sri Lankan President Mahinda Rajapakse, who also holds the finance portfolio, presented what can only be described as a war budget to parliament on November 7. Announcing a record allocation on defence spending, he insisted that “protecting the motherland” took priority over other areas of government spending.

Rajapakse is directly responsible for plunging the island back to civil war. Tensions immediately began to rise after his narrow victory in the November 2005 presidential election, followed by open military offensives after July 2006. In his budget speech, the president openly boasted of “rescuing the entire eastern province, including areas that were in the control of terrorists consequent to the so-called ceasefire agreement through a successful humanitarian operation”.

The use of the term “so-called” underscores Rajapakse’s contempt for the 2002 ceasefire agreement signed by the United National Party-led government with the Liberation Tigers of Tamil Eelam (LTTE). As for “humanitarian”; the military’s offensives in the East have killed hundreds of civilians and driven tens of thousands more from their homes.

Rajapakse has made absolutely clear that his government intends to wage an all-out war to destroy the LTTE. Seizing on one of the LTTE’s few counterattacks, a raid last month on the Anuradhapura air force camp, he declared: “They [LTTE] will never be ready to surrender arms and agree to a democratic political solution ... we have no alternative but to completely eradicate terrorism.”

To wage this war, Rajapakse has increased the military budget for 2008 by another 20 percent to 166 billion rupees (\$US1.5 billion). Since Rajapakse won office, the defence allocation has risen by a massive 265 percent and now constitutes 16 percent of total government expenditure. Daily spending on the military is \$US4 million, in a country where much of the population is surviving on less than \$1 a day.

In his budget speech, the president said: “The priority that has been accorded to protect our motherland should not be compromised to any challenge.” Defence spending

is now one and a half times the total spending on public health and education.

On the same day as the budget speech, the armed forces launched a new offensive in a bid to capture LTTE territory in the northern Wanni region. Despite being supported by tanks and helicopter gunships, the government troops were driven back in heavy fighting. Official figures put the army’s losses at 11 dead and 41 injured, but the actual figures may have been far higher.

In all likelihood, the operation was cynically pre-planned to underscore the budget message. The “Political Column” in last weekend’s *Sunday Times* noted: “Even before the offensive was launched, posters urging the public to forget their mouths and stomachs when troops were on the doorsteps of Wanni appeared in part of the City [Colombo].”

The Rajapakse government is well aware of the mounting public hostility to the war and the resulting economic burdens. While rising world commodity prices, particularly for oil, are certainly a factor, huge increases in defence spending have contributed to soaring inflation that has hit working people hard. Rajapakse offered a number of cosmetic measures aimed at the deflecting popular anger, but the overall thrust of the budget will deepen the country’s economic and social crisis.

An economic columnist for the *Sunday Times* commented: “The huge war expenditure has been one of the serious financial and balance of payments problems for the country. This is quite apart from the consequences of the war on the economy and the undeniable fact that it is a serious check and constraint on the growth of the economy. The expenditure on hardware and the armed services has had a serious direct damaging impact on the economy in many ways.”

The article pointed out that expenditure on the war had contributed to a public debt of 2,607 billion rupees, greater than the country’s GDP. The largest allocation in the budget—373 billion rupees—is for debt servicing. The government has borrowed another \$US500 million on international financial markets at high interest rates that

will further increase the debt burden.

Sections of the corporate elite are deeply concerned about the economic impact of the war. The Business for Peace Alliance, a grouping of business chambers, commented: “[The] increase in defence expenditure implies that there will be cutbacks in large-scale investment projects. With the rate of inflation at an unbearable level, such increased expenditure on non-constructive sectors will have a negative impact on the economy.”

Inflation has reached to its highest level in 17 years. For the month of October, annualised inflation was 17.7 percent by the Colombo Consumer Price Index and 22 percent by the Sri Lanka Price Index. Cutbacks in government subsidies have resulted in huge price increases for essential items: a kilogram of flour rose from 39 rupees in January to 65 rupees in September and a popular brand of milk powder increased from 140 rupees in January to 250 rupees in October.

Further fuelling inflation, the government has resorted to running the printing presses to cope with the lack of money in the treasury. In 2006, the Central Bank printed 24.8 billion rupees worth of paper money. In the first quarter of 2007, it printed another 15.9 billion rupees.

The Rajapakse government has repeatedly rejected the demands of striking workers for pay rises to cope with inflation. Government ministers declared there was no money and accused workers of sabotaging the war effort. In a bid to quell growing anger, Rajapakse announced a limited 375-rupee cost of living increase to monthly wages in January and another six months later. These will quickly be wiped out by skyrocketing prices, as will various small subsidies for the poor.

The president also promised to provide jobs for 15,000 graduates, but offered no details. Last year he announced that the government would provide 10,000 jobs for graduates but only 2,088 were employed. In the past two months, police have broken up protest marches by unemployed graduates demanding jobs. While Rajapakse boasted that unemployment was now just 6.5 percent, the jobless rate for young people 15-29 years old is 19 percent, forcing many to join the army.

Taxes have been increased substantially. Economic analyst Harsha de Silva commented in the *Daily Mirror*: “The only certainty in the budget for 2008 is that it will add further burdens on the people of this country who are already reeling under 22 percent island-wide inflation. The revenue estimates indicate that the total tax on goods and services will increase by a massive 25 percent in

2008. It is no secret that such consumption tax increases will hurt the poor more than the rich.”

Hoping to capitalise on widespread discontent, the opposition United National Party (UNP) has declared that it will oppose the budget. For the Janatha Vimukthi Peramuna (JVP), however, the budget has created an awkward political dilemma. While demanding an intensification of the war against the LTTE, JVP also postures as a defender of workers and the poor.

The JVP leaders have responded to the budget with bluster and noisy criticisms. JVP MP Wasantha Samarasinghe declared the party would “bring private sector workers to the streets” because the government had not directed employers to increase wages. Another JVP MP, Lal Kantha, leader of the party’s National Trade Union Centre (NTUC), has warned of strikes and protests.

Parliamentary leader Wimal Weerawansa told *Rivira* that the JVP was not satisfied with the budget because of rising inflation and tax burdens. In the same breath, however, he declared that the “party’s decision on the budget will depend on the political issues that have emerged in the country, the war that security forces are waging against separatist terrorists”. He added: “There is no question over the increase of defence expenditure.”

The JVP, which is not part of the ruling alliance but supports the government in parliament, is yet to indicate which way it will vote. If the JVP rejects the budget, the Rajapakse government is dependent on a highly unstable coalition of parties to pass its measures. The budget could be defeated if just six government MPs crossed floor. If the JVP votes for the budget or abstains, its populist demagoguery will be further exposed, undermining its support, including among its Sinhala rural base.

Whatever the immediate outcome of the budget debate, the escalation of the war and its economic burdens are setting the stage for explosive social struggles.



To contact the WSWS and the
Socialist Equality Party visit:

wsws.org/contact