Sri Lankan budget imposes deeper austerity measures

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Sri Lankan President Mahinda Rajapakse, who is also the country's finance minister, delivered the budget for 2014 last Thursday, announcing further attacks on the living conditions of working people, while handing greater concessions to foreign investors and the wealthy elite.

Rajapakse falsely declared that the budget was oriented to improving the social conditions of working people, by developing the economy. Rather, at the behest of the International Monetary Fund (IMF), the government is again cutting the deficit, thus imposing the burden of the economic crisis on workers and the poor.

The budget will reduce the fiscal deficit from 5.8 percent of gross domestic product (GDP) this year to 5.2 percent next year, then to 4.5 and 3.8 percent in 2015 and 2016 respectively. In 2009, the IMF insisted that the deficit, which stood at almost 10 percent of GDP, had to be halved in return for a $US2.6 billion loan to avert a balance of payments crisis.

Rajapakse's latest budget imposed a special commodity levy on imports of many basic food items, ranging from 2 to 27 rupees per kilogram. The long list includes salt, sugar, dry fish, vegetable oils, dhal, chick peas, green gram (mung beans), pasta, soups, cereals, yoghurt, butter and margarine. Rajapakse cynically declared that the levy would encourage local production, but the main effect will be to raise prices. Before the budget, transport fares were increased by 7 percent.

Prices for building materials, including cement, aluminium and steel products, were also raised. The telecom levy on phone users was increased by up to a staggering 25 percent. A special 15 percent value-added tax was imposed on supermarkets.

While imposing these price increases, Rajapakse maintained a seven-year wage freeze on public sector employees. These workers will receive only a meagre 1,200 rupees ($US9) monthly cost-of-living increase. Pensioners received an increased allowance of just 400 to 600 rupees a month. The president asked private sector employers to make parallel increases but, as in the past, the request will be largely ignored.

Rajapakse announced a contributory farmer pension scheme in a bid to maintain the government's rural base of support. The previous scheme collapsed as most farmers paid no contributions because they saw no benefits. Now the contributions are going to be indirectly imposed on farmers via a five-rupee per kilogram cut to the fertiliser subsidy.

The allocations for public education and health, 68 and 117 billion rupees respectively, were only marginally increased, and, as happened last year, may not be fully released. The largest allocation is for the military, 253 billion rupees, even though the country's long-running civil war ended in 2009. The government is continuing to boost the military occupation of the island's North and East and is preparing to crack down on resistance by working people to its savage austerity program.

The budget deficit of 516 billion rupees will be covered by new borrowings, adding to the country's total debt, which is now around 6.63 trillion rupees, or 80 percent of GDP. The cash-strapped government is increasingly taking out local and foreign loans at high interest rates, which will be paid through new inroads into the living standards of the working class.

IMF deputy managing director Naoyuki Shinohara, who visited Colombo this month, supported the government's austerity measures, but warned that the global economic slowdown and the US Federal Reserve Bank's quantitative easing policies would hit the Sri

Lankan economy. He lowered the IMF's growth prediction for Sri Lanka this year to 6.4 percent, in contrast to the Sri Lankan Central Bank's estimate of 7.5 percent. From January to September 2013, Sri Lankan exports grew marginally by 0.3 percent.

While imposing price hikes on the working class and poor, Rajapakse announced another round of concessions for businesses and the wealthy. High-end designer pens, ties and bows, and fishing gear, including frozen bait and marine propulsion engines, were exempted from the Value Added Tax. Last year, as a bonus for the super rich, Rajapakse removed a 300 percent tax on racing cars. This budget provided a three-year 50 percent tax holiday for enterprises listing their shares on the Colombo Stock Exchange (CSE) in 2014.

Expressing nervousness in the ruling elites about the political consequences of the deepening social divide, Friday's editorial in the *Island* declared: "Going by the sheer number of super luxury vehicles on roads and the sickeningly ostentatious display of wealth by some, one cannot simply understand why the government remains dependent on indirect taxes on essential goods and services at the expense of the ordinary public."

The Ceylon Chamber of Commerce had no such qualms, declaring that it "appreciated the continued commitment to fiscal discipline displayed in Budget 2014." According to the National Chamber of Commerce, "by-and-large the budget was a progressive document."

Rajapakse has usurped control of government finances from parliament. Clauses in the budget allocation document allow the treasury secretary to relocate funds without seeking parliamentary approval. The constitutionality of this procedure was challenged in the Supreme Court but sanctioned by the Chief Justice, an appointee and close confidante of the president.

The criticisms of the budget by the opposition parties and trade unions are utterly hypocritical. Almost all the union leaders handed proposals to Rajapakse and spread the lie that his government was going to boost incomes and provide a living wage. Now these leaders are crying foul because their "demands," which were never going to be met, have been ignored.

United National Party (UNP) leader Ranil Wickremasinghe told parliament last Friday: "The government's budget 2014 has impoverished 99 percent of the population, while contributing to the fattening of a measly 1 percent of the super rich." Should it win office, this right-wing, big business party would do exactly the same. As prime minister in 2002-04, Wickremasinghe oversaw the UNP's sweeping pro-market program known as "Regaining Sri Lanka," which made deep inroads into living standards.

The opposition Janatha Vimukthi Peramuna (JVP) declared it would hold protests in Colombo and throughout the country against the budget. Before the budget, the JVP's trade union leaders took part in discussions with the government and stifled any opposition from their members. Now they are calling demonstrations for the same purpose—to let off steam and block any political struggle against the government and its austerity budget. In 2004, the JVP was part of a coalition government with Rajapakse's Sri Lanka Freedom Party that imposed the IMF's pro-market dictates.

The entire political establishment is committed to imposing the burden of the deepening economic crisis onto the working people. Workers need a new revolutionary leadership armed with socialist policies to defend their rights. They must organise independently of all capitalist parties, the unions and their hangers-on to fight for a workers' and peasants' government as part of the struggle for international socialism. Only the Socialist Equality Party fights for this perspective.