Sri Lankan finance minister’s budget proposals deepen social attacks

Saman Gunadasa
16 November 2021

On Friday, Finance Minister Basil Rajapakse, the brother of Sri Lankan President Gotabhaya Rajapakse, presented his austerity budget to parliament.

“This is history’s most challenging period,” he demagogically declared, while claiming, “We are equipped with all the necessary strengths to manage the economy and overcome such challenges.”

Translated into plain language, “manage the economy’” and “overcome” the challenges, means the ruthless imposition of the economic crisis, which has been exacerbated by COVID-19, onto the backs of the people.

Rajapakse also revealed the total indifference of the ruling elite to the thousands of people infected or killed by the virus, falsely proclaiming that Sri Lanka has been “able to gain a distinct advantage by the early control of the COVID-19 pandemic.”

The government’s response had revitalised “the lives of our people” and “revived critical sectors of the economy,” he continued. “Mobility has returned. Income generating activities have recommenced. Normalcy has returned to the lives of our people.” We have seen “the entire country turn itself into a busy workplace.”

Contrary to Rajapakse’s claims, there is no control of the pandemic in Sri Lanka. The grossly inadequate government response has led to over 552,000 infections and the death of more than 14,000 people, according to the official figures. Medical experts, moreover, have repeatedly warned that a new surge of the deadly disease is imminent.

In line with its global counterparts, the Rajapakse regime reopened the economy placing the profits of international investors and big business above human life. Finance Minister Rajapakse did not utter a word about the social catastrophe that voiced any sympathy or regret over the lost lives.

On November 1, Rajapakse bluntly told the media that his budget would not give anything to the people but take from them. Last Friday in parliament he cynically claimed that the budget had been carefully prepared “not to burden the people.”

As expected, the budget proposals are a major assault on workers and the poor, with wages frozen amid rising inflation and shortages of essentials. In the run up to the budget, Colombo withdrew all price controls on essential goods, giving big businesses the freedom to dictate high market prices.

Overall budget expenditure for next year will be increased to 3.9 trillion rupees ($US19.2 billion) with revenue estimated to be 2.2 trillion rupees. The deficit will be financed through domestic and foreign borrowings and increased taxes on working people.

At the same time, the government wants to slash the budget deficit from 14.7 percent of GDP last year, to 8.8 percent next year, estimating that subsequent reductions would balance the budget by 2028. This will not only mean further increases in the price of essentials and sharp reductions in the living conditions of the masses but efforts to dismantle the entire public sector.

Rajapakse’s budget includes increased taxes on imports and goods and services taxes (GST) to secure a predicted 1,491 billion rupees next year, up from this year’s 1,030 billion rupees. The full list of items and GST rates has not been announced but increased higher excise taxes were announced on liquor and cigarettes on the day of the budget presentation.

Sharp cuts will be applied through the “commercialisation” of around 300 state-owned enterprises (SOEs). “Most of these institutions,” Rajapakse declared, “do not provide returns on the investments made by the government” and were “a drain on the national economy.”

The SOEs, he said, would be subjected to a “multi-disciplinary consultative committee” which will formulate “a strategic way forward.” He also proposed curtailing any new building in the public sector and to cut telephone and electricity costs in the sector by 25 and 10 percent respectively.

At a press conference after his budget presentation, Rajapakse said that the whole of public sector has been an “unbearable burden.” He said there was “absolutely no way we can spend public money on government sector employees." Rajapakse's budget also proposes the public sector retirement age be increased from 60 to 65 years with a block on all new recruitment.

This assault on the country's 1.4 million public sector workers is in line with previous International Monetary Fund's "structural reform" demands and involves the elimination of the remaining hard-won rights by these workers.

Finance Minister Rajapakse wants expenditure authorisations for government institutions to be on a quarterly basis, instead of annually, to force SOE managements to immediately implement the drastic expenditure cuts. Public service efficiency and productivity would also be "enhanced" through an appraisal system "based on the satisfaction of clients and Key Performing Indicators."

There will also be 173-billion-rupee total cut in health, samurdhi (meagre welfare allowances for the poor), water supply, women and child development and rural housing allocations.

Some trade unions appealed to the government to grant a 10,000-rupee salary increase to state sector employees in the budget and called on the finance minister to ask private sector employers to give a similar pay increase. These pathetic requests were a desperate attempt to dissipate rising working-class unrest and prevent a direct political struggle against the government and employers.

Finance Minister Rajapakse announced a budget allocation for a meagre wage increase for 250,000 teachers and principals. The teachers unions had negotiated a rotten deal with the government for a third of the original claim and then shutdown a long-running national teachers strike.

Rajapakse proposed a onetime 25 percent income tax on 62 big businesses and individuals with 2 billion rupees annual income, as well as a 2.5 percent social security levy on companies with over 120 million annual turn-over. While these taxes could increase government revenue by 200 billion rupees it is a gentle slap on the wrist for the top profit earners.

The corporate media made much of the slight tax increases on big business in order to deflect attention from the government's devastating attack on the working people. Colombo, however, has not touched the existing corporate tax regime, which at 14 to 24 percent, is the lowest rate in South Asia.

The government's generous tax holidays for big investors also remain intact. Port City, a Chinese land reclamation in Colombo, for example, has been declared an international financial hub and is exempted from Sri Lanka's tax and labour laws.

Notwithstanding Rajapakse's "recovery" rhetoric, the country's economic crisis and foreign debt problems will worsen as the pandemic continues, exports fall and the global disruption of trade remains. Foreign debt repayments, the finance minister admitted, is the government's largest budget expenditure with $US4.3 billion due for next year and higher amounts in the following years.

The Ceylon Chamber of Commerce, a big business lobby group, welcomed the maintenance of "mainstream corporate tax rates and investment incentives" and hailed the SOE reforms but voiced its displeasure about the one-time tax on big investors.

Opposition parties, such as Samagi Jana Balavegaya, the United National Party and Janatha Vimukthi Peramuna, timidly criticised the government, claiming the crisis was caused by "corruption" and "mishandling" of the economy. These organisations all defend the capitalist profit system, have only tactical differences with Rajapakse regime, and, when in power, have ruthlessly imposed austerity measures against workers and the poor.

The past ten months has seen broad layers of the working class and the rural poor resist the government attacks on living and social conditions with demonstrations, protests and strikes through. These struggles have involved health, education, railway and state administration sector employees and plantation workers.

The government's commercialisation and privatisation agenda is also being resisted by electricity, petroleum and port sector workers with nationwide protests early this month. Angry farmers have continuously protested against the lack of fertiliser and other basic inputs needed for cultivation.

It is no accident, that Finance Minister Rajapakse wants to allocate of 373 billion rupees, an 18-billion-rupee increase, for defence spending, second only to the amount for foreign debt repayments. Spending on the police, will also increase, up 10 billion rupees to 95 billion rupees this year. This bolstering of the state apparatus is in preparation for direct conflict with the working class.