Sri Lanka: A look at the 2016 Budget

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A new economic policy package is fast consolidating as reflected by the Prime Minister's Economic Policy Statement on November 5 and the 2016 Budget Speech on November 20. This vision is stimulating economic growth through increased construction supported by greater inflows of global finance capital. Construction is to be centred on Colombo and the Western Province with the massive Megapolis urbanisation project, major housing schemes and the continuing investment in highways. Next, Colombo is to be made a financial centre through greater integration with the global capital markets and financial liberalisation.

This new economic policy package seeks to make radical changes to the workings of all three factors of production: land, labour and capital. Indeed, the new mechanisms for the accumulation of finance capital depend on major changes to land and labour. Furthermore, a tremendous process of urbanisation is to simultaneously abandon the rural economy and social life, and aggravate uneven development and social inequalities.

Education and health

The silver lining in the 2016 Budget is the increased expenditure in education and health. This is best reflected in the budget by the increased capital expenditure in education and health as a percentage of total public investment increasing from 10.4% in 2012 to 24.2% in the 2016 Budget.

Next, following the major struggle for education, including the Federation of University Teachers Association (FUTA) strike action in 2012, there has been a powerful demand to increase state expenditure in education. In the context of educational expenditure by the state steadily falling to 1.8% of GDP in 2011, FUTA put forward a demand borrowing from a UNESCO recommendation to increase state educational expenditure to 6% of GDP. Over the last few years there has been a change with allocations in 2015 increasing to 2.1% and now in the 2016 Budget 2.7% of GDP. With an increase of over 30% in the 2016 Budget, educational expenditure has surpassed the Defence Budget.

While the increased investment in education and health including through these budget proposals are welcome, it should be noted that most of this investment is in physical infrastructure rather than in human resources within educational and healthcare institutions. In other words, there are only limited provisions for investment in and training of educators and healthcare providers. Furthermore, there are worries about the longer-term concerns of the Government's move to encourage private universities and medical tourism. Commercialising education and health in this manner might undermine the legacy of free education and health that have been particularly important for the welfare of the marginal sections of society. Furthermore, the best lecturers and doctors may now serve the wealthy classes and foreigners as a result of the higher paying and fee levying private institutions.

Agriculture and fisheries

The Government's investment in agriculture, continues to be extremely low even as the rural economy is in crisis. The investment in storage facilities for agricultural produce, small fisheries harbours and some fish processing centres as well as provisions for better prices for agricultural produce are some worthwhile proposals in the budget. However, the major contribution of the Government to the rural economy continues to be the fertilizer subsidy, which is now going to be converted into a cash grant totalling Rs.37.5 billion, which is 55% of the combined allocation for agriculture and fisheries. In this context, the investment in highways, despite the decline from the Rajapaksa regime's highway construction push, is over ten times the combined capital investment in agriculture and fisheries amounting to Rs.13 billion.

This worrying and continuing decline over the years in Government investment in agriculture and fisheries reflects the abandoning of the rural communities and their livelihoods by the Government. It is such neglect that reinforces the rising inequalities and uneven development, which is ravaging the rural communities. In this context, the development of the Megapolis has over five times the allocation for fisheries; the latter is the livelihood for the entire coastline of our island nation.

The Megapolis project - which is to be unveiled next year - is likely to draw on private finance, and along with the large budgetary allocation for building houses to laying highways, reflects both the emphasis on construction as the main stimulus of near term economic growth and urbanisation as the longer-term process of economic transformation. This urban vision is detrimental to rural society.

Labour and tax reforms

Reminiscent of the attacks on labour suggested by the previous UNP Government's Regaining Sri Lanka economic policy package of 2002, the greatest dangers are to workers' rights. Not all controversial reforms are likely to be outlined in the Budget Speech and the Prime Minister's Economic Policy Statement, because an element of surprise is often part of a Government's attack on labour. Nevertheless, the corporate bias of the Government is very clear. There are concrete provisions for introducing part-time work and increasing the temporary period of contract workers from six months to one year. Such provisions will aggravate the already precarious conditions of workers, the bulk of whom are denied permanent employment with the proliferation for example of manpower agencies.

There is a proposal to reduce the private sector firm's work week from six days to five days, which will lengthen the working day of the workers and reduce the operational costs of businesses. However, there is no provision to increase the private sector worker's salaries, not even from the increased profits from this lengthening of the working day.

The need to increase revenues and revamp the tax regime has been recognised for long. However, whether the tax policies in the budget - including measures to address tax avoidance and changes to tax holidays - will address the greater level of revenues necessary to sustain state policies are in question.

Furthermore, while the Prime Minister mentioned the need to change the regressive character of taxation, from 80% indirect taxes to 60% indirect taxes, the tax policies in the budget point to the opposite dynamic of further increasing indirect taxes and therefore increasing the tax burden on the bottom rung of society. These are the consequences of the decrease in corporate taxes under the rubric of simplifying the tax regime as well as increases to VAT and NBT, which will be passed onto consumers whether it be electricity bills or interest paid on bank loans.

Marketing land and financialisation

One of the major social and economic changes envisioned in the budget is the creation of a market in land. For example, there is now the move to alienate land, by providing those who have permit lands for ten years, private ownership of their land. While this is on the surface a welcome move, the dynamics are such that it could lead to distress sales resulting in the loss of lands and homes of the lower classes; this is all the more so given the tremendous indebtedness in society. In other words, with the expansion of private land in the rural areas, there is also the possibility of agglomeration of rural small holding land for agricultural businesses.

There are also proposals to use school lands for public private partnerships in agricultural businesses; this is in essence commercialising part of the school premises instead of building other facilities such as sports complexes for schoolchildren.

There is now the recognition of the problems with banks involved in leasing and pawning. The budget requires banks to stop their involvement in leasing and to reduce their pawning business. That is because the earlier high profits for financial institutions from leasing and pawning through the dispossession of the savings and assets of large sections of the population has now turned into non-performing assets for banks. However, microfinance which has greatly indebted the rural population in particular, is encouraged in the budget, reflecting the Government’s bias towards finance over the economic concerns of people.

The larger changes are the moves to further financialise the economy through the promotion of capital markets; including incentives for companies to get listed on the stock market, encouraging a corporate bond market, expanding private insurance and pensions funds and boosting foreign borrowing by banks. Furthermore, Real Estate Investment Trusts, which financialise land through the asset management of real estate, are to be promoted. Finally, continuing on the previous Government’s policies, there are moves to further consolidate banks through mergers. Such financialisation is expected to lure in global finance capital for further construction, and through that process stimulate higher rates of economic growth.

Crisis conditions

The new economic policy package, which is characteristics of neoliberal policies in many parts of the world, if implemented, can in the course of a few years transform land, labour and the form of capital that underlie the workings and structure of our economy. A deepening process of financialisation will bring global finance capital into the country in the short run, but it will lead to greater speculation resulting in financial crisis in the future.

The new economic policy package will through a process of uneven development accelerate urbanisation over the needs of our rural communities, intensify the exploitation of workers, monetise and dispossess people of their lands. Furthermore, in the likely event of a financial crisis in the future, as evident from the increasing frequency of crises in financialised economies, it is the peoples' assets and entitlements that will be liquidated to compensate finance capital. Therefore, the people should be vigilant, beginning with the working classes and those dependent on rural lands and the sea for their livelihoods.

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P.S.

*http://www.dailynews.lk/?q=2015/12/18/features/progressive-facets-2016-budget

This article draws on a series of discussions on the 2016 Budget organised by the Collective for Economic Democratisation [www.economicdemocratisation.org].