

The Budget, Populist Politics and the Neoliberal Economy

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The Budget for 2012 was more or less as expected. The Rs 1.6 trillion (US\$ 14.5 billion) Budget, a 14% increase on the previous Budget, represents approximately one-fifth of Sri Lanka's expected GDP. The substance of the Budget for the most part continues from last year; it outlines the incomes of some 1.1 million public sector employees and lays out the allocations for services including health, education, poverty alleviation and other benefits for targeted constituencies. The Budget also builds on the major shift last year on tax, banking and finance reform. As with the Rajapaksa government's emphasis since 2006, government expenditure is heavily weighted towards infrastructure development.

What does this Budget mean for the economic welfare of the larger population? Is there a neoliberal logic reflected in the Budget? Can the economy withstand the volatile global financial markets?

Ideological Moves and the Confluence of Finance, Security and Development

President Rajapaksa's Budget Speech was characterized by skilful rhetoric and populist measures that masked the neoliberal logic at work in shaping Sri Lanka's economic future. First, there was lip service towards the Left, claiming his lineage from Left leaders of the post-Independence era including Philip Gunawardena, S A Wickramasinghe, N M Perera and Colvin R De Silva. He went further in attributing Sri Lanka's misery: "This nation was placed on to a very destructive path from 1977. The path was overshadowed by neo liberal economic policies on the one hand and separatist terrorist activities, on the other." While the President has consistently mentioned the destruction brought on by the war and the LTTE, this explicit reference to neoliberalism is unique. Perhaps this anti-neoliberal assertion is made to pre-empt any class critique of the Government's economic policies—despite the strengthening of the regime's relationship with neoliberal institutions such as the IMF and World Bank after the war.

The President stated in the Budget Speech, that his first term vision was "to ensure a rural centric development strategy." His election manifesto for the second term was presented "to place the country on a path of rapid economic development." Some critics of the Government, including myself, have maintained that the current economic policies are a continuation of the major shift inaugurated by the neoliberal policies of the Jayewardene regime in 1977. The post-war years, coinciding with the President's second term, have seen the acceleration of neoliberal policies centred on financialization. Thus "rapid economic development" has in effect meant a second wave of neoliberal policies, beginning in 2010, with a distinct shift towards urbanization with an emphasis on the tourist industry.

Beneath such political claims, the Budget ultimately is about allocation of state resources. Here, the Rajapaksa regime, including the President, his brother the Minister of Economic Development and his other brother the Defence Secretary, control the following ministries: Finance and Planning, Ports and Highways, Civil Aviation, Economic Development, and Defence and Urban Development. The total allocation for these ministries is over a third of the Budget (39%). Furthermore, given the considerable centralization of policy making around the central actors of this regime, their control

over most other ministries and a lion's share of the Budget is a reality. The point here is that any political economic analysis of the current regime needs to grasp the confluence of finance, security and infrastructure development, which consist of the portfolios chosen by central actors of this regime. Indeed, the Rajapaksa regime, while claiming to champion the rural masses has only made measly allocations for agriculture and rural development, and the large allocation for the ministries they directly control including urban development betray their neoliberal biases.

Incomes, Inequalities and Exclusion

There has been criticism in the media about Budget allocation towards Ministry of Defence and Urban Development, amounting to a staggering Rs 230 billion. The limitation of such criticism is that the bulk of this allocation - as stated in the Budget - is for salaries and expenses of security forces personnel. Rather, what steps can be taken to reduce the size of the security forces and in parallel create jobs to absorb them in the civilian labour force? Furthermore, the more serious problem is the continuing militarization of state and society, including the merging of defence and urban development and increasing military encroachment into civil administration.

Others have been critical of populist handouts such as a Rs 100,000 grant to security forces personnel who have a third child. While such a handout to the security forces is ideologically problematic, there are also other populist measures targeting particular constituencies. The relatively large fertilizer subsidy amounting to Rs 40 billion to appease the Government's rural political base through a network of patronage may further expand the black market in fertilizers instead of the requisite productivity increases in agriculture. Furthermore, who benefits from the 37,000 hectares of unproductive plantation land to be taken over and distributed as two acre plots for small holders? On the other hand, the subsidy for the poor in the form of Samurdhi of Rs 32 billion continues to be small despite the few hundred rupee increase this year. Such populist measures for targeted constituencies instead of change in agrarian policies, land reform or a robust process of poverty alleviation are characteristic of neoliberal regimes that appease their political base even as they dispossesses the larger citizenry of entitlements.

The Budget claims that the national economy is booming with 8% GDP growth and per capita GDP at US\$ 2,800, with expectations of per capita GDP of US\$ 4,000 and a GDP of US\$ 100 billion by 2016. With heavy investment in infrastructure there is bound to be GDP growth. However, will such investments made with considerably high interest loans lead to sustainable growth, or will it lead to further debt and a future crisis? Next, there is no magic to the per capita GDP number; it is merely the GDP in US dollars divided by the population, which in rupee terms is Rs 308,000 per year or Rs 25,700 per month. Clearly, this means little for the larger population. The average income in 2010, according to a Census Department report, was Rs 9,104 per month. If one looks at the median income, to avoid averaging the extremes of wealth inequalities, it was lower at Rs 5,803. If one looks at the median income disaggregated by sector, those in the rural or estate sectors were even lower. The Samurdhi grant in the Budget for a small family is Rs 750. Thus the per capita GDP the Government boasts of is in fact reflective of the vast inequalities of a neoliberal economy.

There are major disparities in wealth and access to jobs along class lines, across the urban-rural divide and between the Western Province and other Provinces. However, the Budget has no program to address such inequalities and uneven development. After major increases in investment in infrastructures, including allocation for the national road network alone amounting to Rs 123 billion, there is a Rs 20 billion allocation "over the next three years with World Bank loan assistance, to execute urban and semi urban development activities." Compare these figures to the 6,000 School Development Project of Rs 2.5 billion and Thousand Hospital Development Project of Rs 1 billion.

Looking at public investment which is to benefit society in the future, the allocation is Rs 498 billion

(6.6% of the GDP). Of this allocation only 9% of it is towards health and education, the rest of the 91% is mainly towards infrastructure development. Furthermore, the current policy trajectory is towards privatization of health and education; tax holidays have been extended to health and education to encourage private investment. While incomes have been historically low in Sri Lanka, the “quality of life” has been high due to universal health and education. Although there are clear benefits to the larger population with public investment in health and education, the same does not necessarily hold for investment in large scale infrastructure whether it is highways, ports or airports. Such infrastructure and the related services only benefit the upper classes and the tourists – after all who uses toll expressways and airports – reflecting the exclusion of the broader society with a neoliberal economy.

The Brutal Logic of Neoliberalism

Beyond the foreign remittances that accrue from migrant labour and the exploitative sectors of tea and textiles, the Government is mainly counting on the tourism sector to boost the economy. Indeed, the Budget provides duty free imports for vehicles for tourist services and multi-year tax holidays for large investments, which for the most part will be dominated by the tourist industry. Expectations of growth in tourism have become the rationale for floating more debt in the form of sovereign bonds, the boom in the stock market and speculative real estate investment particularly in hotels. Thus the promotion of the tourist industry in recent years is linked to financialization central to a neoliberal economy.

The 2012 Budget continues to build on the 2011 Budget which initiated major tax reform and deregulation of the finance and banking sector. Domestic banks are encouraged to capitalize on foreign financing. The integration of domestic banking with global finance is meant to augment the inflow of global capital already characterized by foreign investment in real estate on the order of hundreds of millions of dollars and the opening up of capital markets including sovereign bonds and stock market capitalization on the order of billions of dollars. In many developing countries, labelled as “emerging markets”, financial flows and real estate bubbles do go hand in hand, as global investors are assured of quick returns on their financial investment through real estate speculation. Over the last two years, Sri Lanka had the further advantage of being branded as a post-war economy, which added to the euphoria and drew more of the capital flowing to the “emerging markets” from the West affected by the economic crisis of 2008.

This was the context for the rapid rise of the Colombo Stock Exchange All Shares Index (CSE), which in May 2009 when the war ended was at 2000 and by February this year had reached 7500, almost quadrupling the value of assets with the inflow of global finance capital. However, in recent weeks it has dipped below 6000, a fall of 20% to levels not seen since September 2010. While volatility in the stock market is hard to predict, there are some structural factors that can be analyzed. One, the boost in the stock market as a one-time post-war boom has now probably run its course. Second, there is fair amount of correlation between the fall of the CSE and capital flight from “emerging markets”, reflecting how much Sri Lanka is susceptible to global forces.

The great risk of financialization is that capital can also flow out of the national economy triggered by many factors including the sudden fall in confidence of global investors. This is evident from the recent history of stock market crashes and severe economic crises in many “emerging markets.” Another balance of payments problem for Sri Lanka, particularly if foreign reserves collapse with such capital flight, would probably mean bail out by the IMF with further conditions of austerity and cuts in social welfare. Such financial problems can also spread through the liberalized domestic banking sector down to the households and affect their savings. Ultimately, the consequences of the neoliberal economy will be borne by the people who neither had a say in it nor benefitted from it. That is the general worry about the current regime’s economic policies emphasizing large scale

infrastructure development, tourism and investment in real estate, and the liberalization of the financial sector. In most countries, where this brutal logic of neoliberalism has played out, a strong security sector has been instrumental in repressing social forces that resist and struggle for social change. Indeed, that is the nexus of finance, security and development central to the current neoliberal regime in Sri Lanka.

P.S.

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