

BUDGET 1989 — An Overview — Part II

Bernard Soysa

In all Ronnie de Mel's budgets right up to the Estimates for 1988, as said earlier, there were huge tax concessions given to the affluent sections. There were some tax impositions on the others. The middle class, in particular the lower middle class and the working class. The rate of inflation rose. The cost of living rose. And there was no compensation given to the employed sector, the workers, in respect of that rise in the cost of living. On the other hand there was a repressive state machinery maintained.

In this Budget there are no great concessions to the affluent. But it must be noted; none of Mr de Mel's concessions to the affluent is removed; there is no change in the big concessions. There is one measure — the surcharge which is the imposition of a tax. There is also the new taxation on the purchase of motor cars, which shows an increase. In fact these measures hit the middle class very severely while they do not impose a severe strain on the rich. The price of a bottle of whisky has gone up. At the same time the poor man who wants to drink his arrack has also to pay much more. Beer and cigarettes have gone up in price. In fact the price increases on

articles like Milk Foods had gone up even before the Budget proposals were known.

Earlier Budget deficits were sought to be justified on the footing that these budget deficits together with the tax reliefs given to the affluent were all aimed at development; at increasing development, using the private sector in a large way. That perspective has not been given up. It has received a slight distortion in this Budget. As was said before the attitude to the IMF's package remains unaltered. But this deficit budgetting is not being justified on the ground that it will be immediately translated into development. On the other hand it is sought to be defended on the ground that it will go to help alleviate poverty. (This is only implied but not stated directly). Production is to be stimulated by "Peoplisation".

Now, deficit budgetting in a massive way for the purpose of alleviating poverty is like trying to pull yourself up by your bootstraps. You are defeating your own purpose. The larger the deficit the greater the inflationary impact; and the greater the inflationary impact the more you are robbing the people to

yet, there is no doubt that the only means of helping farmers at times of crop losses, is through a crop insurance programme, and the state has an obligation in implementing such a scheme in view of the importance of farmers in the community, and also to keep farmers on their land. The amount of compensation paid (indemnity) for crop loss, seems to be having an impact on farmer participa-

tion. Reviewing this trend yearly, in comparison to the cost of production might increase participation. Also, the quick payment of indemnities to farmers is essential for them to continue cultivation. Crop Insurance can also help to reduce the need for government managed ad hoc disaster relief programmes, at the time of emergency.

REFERENCES

1. Ahsan, S.M. *Agricultural Insurance: A New Policy for Developing Countries*. Gower Publishing Co. Ltd., U.K. 1985.
2. Dept. of Rural Credit, Central Bank of Sri Lanka, Colombo. *Agricultural Statistics*, December 1986, Volume 111.
3. Director, (Actuarial & Research) Agricultural Insurance Board, Colombo, 1987.
4. Frankel, F.R. (1971). *India's Green Revolution: Economic Gains & Political Costs*. (Princeton: Princeton University Press).
5. Holmstrom, S.K., Nilson, et al (1981) *Report of the Evaluation Team on Agricultural Insurance of Sri Lanka*. Swedfarm, June 1981.
6. Ray, P.K. *Agricultural Insurance: Theory & Practice and Application to Developing Countries*. 2nd edition Oxford: Pergamon Press, 1981.
7. Sanderatne, N. *Using Insurance to Reduce Risk in Peasant Agriculture: Guidelines from Sri Lanka's Experience*. Readings in Farm Management, Singapore University Press, 1979
8. UNCTAD Secretariat, United Nations, 1981. *Crop Insurance for Developing Countries*.

This is the continuation of the first part of the "Budget 1989 - Overview" carried in our March 1989 issue.

Bernard Soysa is a former Chairman of the Public Accounts Committee and the Secretary of the LSSP, and for several years made authoritative contributions to the budget debate in Parliament and has also addressed professional bodies in fiscal policy and public sector finance.

In Part I Mr. Soysa commented that in the 1989 Budget too he had a suspicion that "revenue expectations have been slightly enhanced and the expenditure estimates slightly understated" He also said that "though this budget was expected to have a different structure from the previous budgets of Mr. Ronnie de Mel, there is a continuation of the same things and what Ronnie de Mel did was being preserved; this is within the same economic philosophy, and was complimentary to those that went before." He added that the theory that tax reliefs could encourage capitalist development was one that has been found to be inadequate over many years. He also noted that the policies of the last government were contrasted with the "socialist policies" of the government before 1977, but this was totally incorrect. "There were no socialist policies of previous governments not even in the days of the coalitions", he said.

whom you are intending to give this relief of that very benefit. You are robbing them of the value of that relief. The burden upon the middle class, the working class and the rural poor is going to be enormous. In fact it is on the middle sectors that the surcharge too will rest heavily. At the same time they will find the cost of living soaring beyond tolerable limits.

As for the working class who do not get anything like what the Index justifies as payment of a cost of living allowance, the poor workers will have to suffer. Loss of man hours of labour and a discontented labour force from the point of view of the employer. These are the things you may expect if inflation is allowed to mount as it is likely to do.

It is true that the Government expects a commensurate development to commence. That is on the basis that a part of this money allotted to the Janasaviya recipient will be kept back for future investment. That is the perspective for which the term "Peoplisation" is used. It would appear that in the minds of those who sponsor this name it has applications beyond this investment program. However the concept of solving the country's problem of development

by encouraging large capitalist accumulation on the one hand, and multiplying small producers on the other. (self employment in various ways) is an old idea. In practice it has usually meant that large scale capitalist accumulation is encouraged and then as the rich get richer and the poor get poorer they seek to balance the picture by these means. At various times most governments have tried to allay the resentment of the poorer sections of society by presenting themselves as essentially a small producers raj: that they accept the principle of small proprietorship.

This policy was consciously formulated first in relation to the land. This idea was given out long ago by Sir Hugh Clifford when he was the Colonial Secretary handling the subject of Finance, before the first State Council came into existence. He repeated it in a document sent to the Finance Committee of the time. The idea was later taken over for implementation by the Rt. Hon D.S. Senanayake. The whole idea behind colonisation projects (which though not to be condemned out of hand are ventures that have not generated adequate returns) is this idea of development through the small producer. Taking it beyond investment in land the idea is contained in the self-employment programs that have been tried out from time to time. It is in the Rasaputra Report. It is in fact the basis of Janasaviya.

Past performance is not encouraging. There are several matters that have to be looked into in promoting a project of this kind: (1) effective monitoring of the investment, the expenditure; (2) if it is a proposal to produce goods whether the means and the machinery and the tools employed are effective; (3) whether production can be sustained at a uniform level; (4) whether the monies that are saved are enough for the investments that are proposed.

It is correct that Janasaviya is being amended from day to day. It is now said that the producers could get together. However the basis is the individual unit. How you are going to help these units, how to monitor them effectively and attend to all relevant problems will be a heavy task. However there is a bigger problem. Do these units that are being planned fit into a plan? The word "plan" was a bad word in Mr. Ronnie de Mel's time. Now it is coming back. How do these ventures fit into a plan of production? What are the areas of production covered and what is the system of distribution? There is no evidence to show

that these aspects have been looked into.

The main aspect of the matter is this: the marketing of these goods and services is an enormous task. Most countries have not been able to get away from leaving the market to adjust itself automatically. Supply and demand rule projects. What is proposed to be done here I do not know. Even the socialist sector of the world has not been able to achieve success in effective marketing. The small producer for the most part has not found proper marketing facilities here in Sri Lanka. If supply and demand are to rule absolutely a number of these enterprises are sure to crash with consequent losses to the investors.

Then there is the other side of the Janasaviya which also is being amended often. With the intention of promoting production, they say, the purchasing power of the beneficiaries will be increased only on the basis of guiding the purchaser. In other words they have said that they are introducing not a system of rationing but a system of enabling the purchase of a basket of goods with the card and the coupons. It is said that the goods will be selected principally with a view to stimulating production through the market. That may be so. It is an optimistic view and I hope it will be realised.

There is another matter which the Government appears to have forgotten. Perhaps they have considered it but do not know what can be done about it. There is a problem. It has always been a melancholy experience in the past that when you give poor people who are in want something that is subsidised, either a service or goods, whether they get it free or at a reduced price and when even the price is lower than the market price they will try to turn the difference into cash. This is often at some loss to themselves but they go for the cash. Rice ration books used to be hired out. Rations in rice and flour were sold. You cannot blame people who try to convert the subsidy into cash; they are often so poor that they have few other means of obtaining any money. I do not know how these things are to be checked.

Then there are some proposals in this Budget that appear to be naive. The expectation that you can impose a duty on the export of textiles to the United States and that the U.S. Government which has a tax on the import will re-

move that tax at their end because they wish to allow us to collect it here is remarkable. It amounts to expecting a gift of money from the U.S. Government. Now on what basis do you entertain this expectation? It is difficult to guess.

Another measure in this Budget is what is proposed to be done with the Black Economy. Black money is to be bleached to make it white. The invitation is held out: Put your black money into the National Savings Bank. You will have to pay a tax of 20 percent and subject it to an investment project. Now you pay 3 percent tax on Cash Deposit Certificates relating to black money. So how can this new proposal be more attractive? Why should a person who pays a tax of 3 percent put his black money into the National Savings Bank and pay 20 percent in tax? The Hon. Minister expects more than half a billion to be brought into the Bank. The present CDCs do not make black money white but they do confer a degree of respectability with freedom of movement. So it is a question of how far can the Minister's expectations be realised?

Regarding the Budget deficit - what is the new minister going to do? Here is what he says (somewhat paraphrased). Mr. Speaker, the proposals I have announced will yield a net increase in revenue of Rs.7,020 million and also a repayment to the Treasury of Rs. 2,000 million under Advance Accounts. As a result, the overall Budget deficit of Rs. 53,015 million which I indicated earlier will get reduced to Rs.43,995 million. And then he goes on to say how he will cover this deficit: Rs.18,000 million Foreign Aid; Outright Grants (Foreign Aid) Rs.5,600 million; Domestic (non-inflationary) Borrowings Rs.17,000 million - Total Rs.40,600 million. He concludes: "This will leave an unfinanced gap of Rs.3,395 million. I propose to finance the gap by borrowing from the Banking System. This is just a little over 1 percent of the projected GDP for 1989 and should not therefore cause any significant threat to financial stability."

There are echoes here of Mr. Ronnie de Mel. Now this is what Mr. Ronnie de Mel said in his Budget speech on the 1987-1988 Estimates. He had a deficit of Rs.35,176 million. He proposed to finance this deficit by borrowing from non-inflationary sources. He mentions Foreign Outright grants Rs.5,000 million, Foreign Project and Commodity Loans Rs.17,600 million, Domestic