COMPETING NARRATIVES OF ECONOMIC REALITIES: AN ANALYSIS OF BUDGET SPEECHES IN SRI LANKA

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T R Ekanayake

Abstract

Budget speeches are an intersection between economics and politics. This perspective analyses the budget speeches of Sri Lanka to recognise how political discourse in election manifestos is linked to economic policies during the incumbent period of several political parties across nearly two decades in the post-war era. The evidence suggested that while distinct ideologies existed, they tended to evolve over the course of a political party's incumbency, as influenced by various factors, both domestic and international. Major bottlenecks for the growth of Sri Lanka's economy were identified by all governments. Yet the underlying causes of such challenges and the proposed solutions varied. Moreover, there were gaps between the discourse in policy documents and the implementation of policies.

This suggested that Sri Lanka's budget speeches are of limited use as indicators of economic performance. However, they can be considered a platform that shapes the political narrative to legitimise government performance and plans.

JEL: *H61, P16, H11, H62, O23, N45, Z18*

Keywords*: Budget Speech, Public Finance, Political Discourse, Political Economy, Political Ideology, Government*

T R Ekanayake
Policy Research Services, Kandy, Sri Lanka
Email: thisurirojie@gmail.com, https://orcid.org/0009-0009-0181-6873

INTRODUCTION

National budget formulation is an essential feature of governments globally. However, the practice of ceremoniously presenting annual budget speeches is a less common occurrence. And so, the fundamental question of what is achieved through this exercise remains an issue since the degree to which governments are beholden to these promises, as well as the mechanism for implementation, differs by country. This holds especially true for Sri Lanka, where ad hoc policy changes are a common feature of its economy and are therefore seen as an impediment to its development efforts (Dunham and Kelegama, 1998). According to a tracker developed by Verite Research (2020), information on the progress made on proposals mentioned during the budget speech is often undisclosed to the public and, at times, is only partially implemented if at all.

As such, one of the functions of a budget speech appears to be to serve as an instrument to justify and convince the citizens of the incumbent government's vision and plans, to remain in power. Therefore, this perspective examines the political discourse used by various governments in their budget speeches since the post-war era in Sri Lanka up until the recent economic crisis of 2022, to create a greater understanding of their key themes as well as provide a brief assessment of how these themes fare against the broader party ideologies and the actual performance of these governments.

BUDGET SPEECHES

Budget speeches encompass both political and economic dimensions, although the economic aspects have generally received less attention in the literature. Thompson (2015) describes budget speeches as expressions used to link the rationale of governments to their desired outcomes in terms of revenue generation and expenditure decisions of the state. While largely accurate, budget speeches arguably consist of a broader scope still, encompassing the entire vision for the state in the economy, including its legal, regulatory, and institutional functions.

Ferry et al. (2014) view budget speeches in Malaysia as a hybrid or combination of rationales, individuals, and technologies focusing on economic and social outcomes. It is therefore not only a means of communication of the government's thought process of achieving specific goals, but also a way in which their aspirations are transformed into actionable tasks and of asserting superiority over political rivals. It should also be noted that there are limitations of viewing budget speeches as a measure of a government's policy efforts since the strength of the implementation and accountability mechanisms varies across economies. As Thompson (2015) describes, the use of language in politics shapes reality such that if successful, the speaker can create a believable vision for the listener. This has additional implications from an economic perspective, given that beliefs and behaviour form key forces that drive economic activity.

Budget speeches can also be employed in drawing comparisons and identifying the evolution of the political discourse among and across political parties. For instance, in a discourse analysis of Irish budget speeches, MacDonald (2022) showed the gradual shift in political discourse from a left-liberal stance to a more neoliberal, austerity-based stance, while Thompson (2015) indicated a shift from Liberalism to New Liberalism based on selected budget speeches in the UK.

SRI LANKA'S BUDGET PROCESS

Sri Lanka's budget cycle commences in early July. The process involves the approval of a macro-fiscal framework, according to which various government institutions submit their financial plans. (UNICEF, 2019). This forms the basis for the appropriation bill subsequently presented in parliament in October. The Budget Speech is presented by the Minister of Finance in November and is considered the second reading. However, this includes additional expenditure and revenue proposals not included in the Appropriation Bill, more reflective of the ideology and priorities of the incumbent government (UNICEF, 2019). This process is followed by a process of parliamentary debates and voting, after which the budget, along with its amendments, is approved as an Act. In terms of implementation, budget proposals themselves are not an accurate indicator, as many proposals are not fully implemented (Verite Research, 2020).

This perspective will consider the budget speeches outlining national budgets for the year 2011 to 2022 across the span of three incumbent governments: the 2010-2014 period, the 2015-2019 period, and the 2020-2021 period. As in MacDonald (2022), to examine the political language, the study will focus on the opening and closing statements of the budgets. The 2023-2025 budgets have not been included in this study as the budget cycle was disrupted during the political-economic crisis in 2022 and the change of government in 2024. Furthermore, the budgets at the time were highly influenced by spending and borrowing constraints imposed by the sovereign default and the subsequent IMF agreement, limiting the scope for political ideology.

The major themes in these sections will be identified and compared across periods, as well as in reference to the actual economic realities captured through the revenue and expenditure estimates relevant to the period, with the use of data available through Annual Reports obtained from the Central Bank.

2010-2014: "Mahinda Chinthana" Era

This period represents the post-war era, which is the second term of President Mahinda Rajapaksa of the Sri Lanka Freedom Party (SLFP) in office. The election campaign was designed under the concept of "Mahinda Chinthana" with the theme "A secure nation – A bright future" (Rajapaksa, 2011). The opening and closing statements of the budget speeches focus on several core themes, including national security, peace and reconciliation, upliftment of the rural sector, and investment promotion.

The budget speeches make repeated references to the issue of security and defeating terrorism. Given the context of the end of the civil war in the country, there is an emphasis on the role played by the government in ending the armed conflict and creating a sense of stability. The speeches often begin by evoking a sense of nationalism and heroism, which is then linked to the political will to support the military defeat of the rebel groups.

Another pillar of the political discourse of the day was the focus on the rural poor, as mentioned in the Budget Speech of 2012: "Our vision was to ensure a rural-centric development strategy in which all citizens would get equal opportunities to be engaged in economic and social development" (Rajapaksa, 2011). This gave rise to programmes such as Gama Naguma or the upliftment of the village and created a narrative that centres on the promotion of agriculture, poverty alleviation, and rural sector development, which can be considered a characteristic of this political philosophy.

There is a distinct inward-looking nature to the relevant policies proposed, as well as a distrust and disillusionment regarding the market mechanism. The speeches of this period, therefore, focused on development through investing in domestic industries; "We still rely heavily on the importation of pharmaceuticals, wheat flour, food grains and energy sources. Space for import substitution in these areas is well in excess of US$2 billion" (Rajapaksa, 2010). While there is some interest in promoting exports as well, the method by which the government aims to achieve this growth is less clear.

In terms of taxation and government spending, the political discourse presents taxation in a burdensome manner, and advocates for reduced and simplified taxes; "We all agree that our tax system is complex, tax rates are too high and taxation is narrowly based" (Rajapaksa, 2010). Simultaneously, the government appears to advocate for increased government spending to support the welfare of the people; "We increased expenditure on infrastructure development, salaries and pensions payments, *Divi Neguma*, *Samurdi* benefits, the fertiliser subsidy and introduced guaranteed prices for local producers" (Rajapaksa, 2014). As such, while a greater government presence in the economy is advocated for, the means by which to finance such spending remains unclear.

2015-2019: "Good Governance" Era

Politically, this period marks a transition in governments and a fragmentation of political power. As such, it's unsurprising that the economic ideology is much more liberal and market-oriented in contrast to its predecessor: "Our government is committed to follow more transparent market-oriented policies that facilitate private sector economic activities and remove various barriers in the economy which disrupt the smooth operation of free markets" (Karunanayake, 2015). The speeches provide prominence to promoting commercial ventures, SME development, and financial sector development, particularly in the initial years of government. A major platform on which this message appears to be carried out is anti-corruption, in reaction to the previous regime. There are repeated references to “transparency’, and a need to address “economic mismanagement” as well as promote “freedom devoid of fear and injustice” (Karunanayake, 2015).

In terms of the government’s role in the economy, a key message of the budget speeches during this period is the idea of instilling fiscal discipline by addressing poor planning, wasteful spending, and corruption emblematic of the previous regime: “Every nation must live within its means, and Sri Lanka is no different” (Karunanayake, 2015). This is linked to the issue of mounting debt: “… the burden of the public debt has been a matter of serious concern to this government. This government is committed to relieving the burden of the debt from our children” (Karunanayake, 2016). As such, there is a greater drive to rationalise expenditure and revamp tax measures in the political discourse.

Unlike the previous regime, the political language used in the budget speeches of this regime seems to favour government spending within certain limitations. For instance, it reiterates the need for selected investments given funding constraints: “However, given the fiscal constraints that the large debt burden has imposed on us, I do not think that it is prudent to continue in the same vein and pile up more debt. We must promote investments in areas where the impact on the economy is high, due to value addition and employment creation” (Karunanayake, 2016).

There is also a shift in the focus of the major themes from governance-related issues to the concept of sustainability in later budgets: “Sri Lanka is firmly committed towards the Post-2015 Sustainable Development Agenda and the Sustainable Development Goals (SDGs). As such, the Budget I present today is based on the principles of SDGs” (Samaraweera, 2017). The final budget of this government in 2018 was accordingly titled the Blue-Green budget.

2020-2021: “Vistas of Prosperity” Era

The opening and closing statements of budget speeches in this period suggest that the government headed by President Gotabhaya Rajapaksa continued to promote several ideological strands presented by the 2010-2014 government headed by his brother. As such, there are references to a more pro-interventionist approach to economic development as opposed to that of the previous government; “…has recognised the limitations of market forces within the government policy framework of ‘Vistas of Prosperity’ and conducts itself with full commitment towards fulfilling the broad role of the public sector” (Rajapaksa, 2019).

The impact of the pandemic is also clearly stated in the budget, which is seen as a cause for higher state spending; “What is unique about our country and our government is that we recognise free health services and social security as fundamental policy tenets” (Rajapaksa, 2021). Yet, unlike the 2010-2014 era, there is some recognition of the need for caution in public spending due to an increase in public debt and interest; “As such, interest expenditure on public debt has become the single largest expenditure item in the budget" (Rajapaksa, 2021).

The decline in public revenue is also acknowledged: "Government revenue shows a downward trend as a percentage of the Gross Domestic Product" (Rajapaksa, 2021). However, the measures to counter this focus more on the administrative aspects related to tax collection, rather than on tax rates or thresholds: "As soon as our Government was elected, we took measures to create a simple, transparent, and effective tax system aiming at facilitating taxpayers and improving tax compliance" (Rajapaksa, 2021).

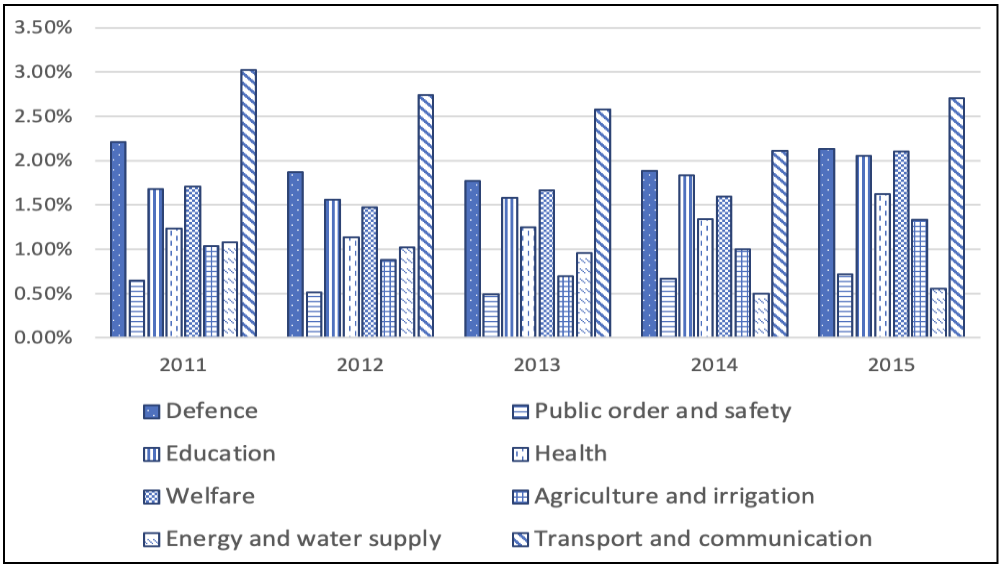
Another similarity to the government of 2010-2014 is the inclusion of language in its politicaldiscourse that appeals to the rural sector, such as sentiments that focus on village-level development, agriculture, and food security promotion, and supporting the 'home economy' (Rajapaksa, 2021). There is also an emphasis on the need for security and public order, where terrorism and illicit activities are seen to pose a major threat to society: "To ensure national security, a medium-term plan to enhance the professional skills of the heroes of our tri-forces, providing them with modern technological facilities, is currently being prepared" (Rajapaksa, 2020).

Furthermore, there is a recognition of the need to promote exports and support production: "It has become a national need to change our mindset to have faith in a production economy that supports exports and domestic production capabilities with fewer imports. A market economy that is dependent only on tea and apparel, with imports that are twice that of the exports without value additions to local resources and raw materials, will not facilitate a sustainable development" (Rajapaksa, 2019). Nevertheless, as with the 2010-2014 regime, concrete measures to achieve this outcome are not emphasised. Finally, in contrast to previous budgets, there is also increasing attention given to international partnerships, particularly with regional powers; "Given Sri Lanka's proximity to two of the largest markets in the world, being India and China, has created an opportunity for the country to be a trading place for their goods" (Rajapaksa, 2021).

REALITIES

Budget speeches comprise a government's statement on how it chooses to earn, spend, and manage debt in a given year and provide insights into its political and economic philosophies that underline policies. In the three regimes examined in this study, there are notable commonalities and differences in the way in which these major issues are tackled. The political discourse does reflect the actual spending with respect to some aspects. For instance, in the 2010-2014 regime, the emphasis on the role of the military in providing national security coincides with a maintenance of high military spending, in relation to other expenditure (Figure 1).

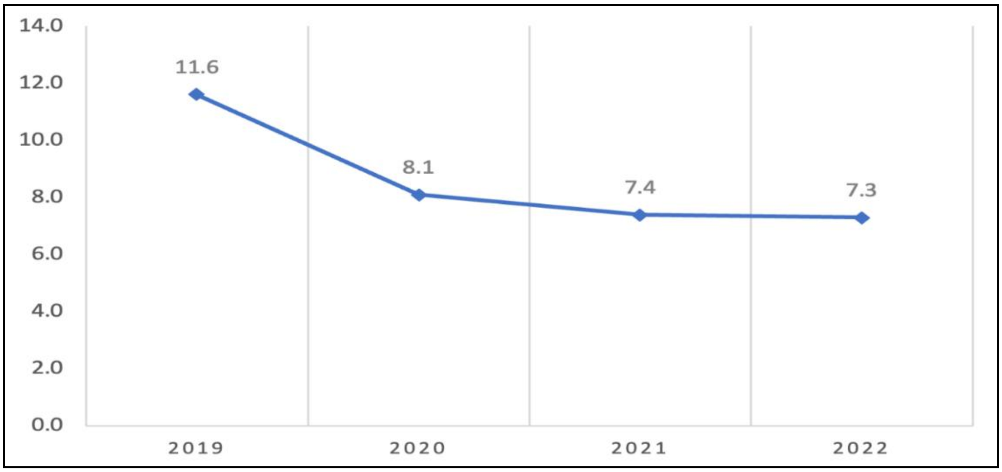
Figure 1: Expenditure as a percentage of GDP



Source: Central Bank of Sri Lanka 2011-2015

This is not always the case. In other aspects, the politicaldiscourse differs significantly from the actual policies. For instance, while the political statements made by the 2020-2021 government discussed the need to improve tax revenue, the actual tax revenue in this period indicates a decline (Figure 2).

Figure 2: Tax revenue as a percentage of GDP



Source: Central Bank of Sri Lanka, 2019-2023

This suggests that political language present in the budget speeches is not necessarily reflective of all government policies. As such, the function of budget speeches in Sri Lanka appears to differ in relation to the findings of Thompson (2015) and Ferry et al.

(2014), where the political statements appeared more clearly linked with the outcomes in terms of revenue generation and expenditure.

Another feature that is found, as mentioned in MacDonald (2022) and Thompson (2015), is the presence of several distinct discourses under each political regime. Accordingly, the 2010-2014 period appears to be more inward-looking and pro-interventionist, which was followed by a more outward-oriented regime supporting several free-market policies in 2015-2019 and finally by a government in 2020-2021 whose political discourse encompassed a combination of ideologies in 2020-2021. This shows that the specific governments view the engine of economic growth in accordance with their own political ideology. Interestingly, several commonly identified bottlenecks for growth are present among the speeches of each regime.Nevertheless, the means by which to address these issues differ under each government. For instance, each regime discusses the need to promote exports, yet their approaches to resolving the issue differ by political ideology, ranging from reducing trade barriers to enhancing domestic production capacity. Another feature that is clear through these speeches is that the ideologies expressed are not necessarily consistent across time and may be subject to change from the early years in government to the later years.

CONCLUSION

As seen from the opening and closing statements, Sri Lanka's budget speeches provide an understanding of the political discourses that underpin each regime in the period 2010-2022. Nevertheless, political discoursein manifestos is not necessarily in line with actual policies nor the implementation aspect of such policies. Ideologies presented may also vary over time, influenced by political and economic developments in the country and the globe. Therefore, budget speeches serve more as a political platform to convey a government's upcoming yearly strategy for the economy and a means by which to underscore its past achievements. This shows the need to strengthen implementation and accountability measures of governments. While incumbent governments commonly acknowledge many major economic bottlenecks faced by the country, their approach to addressing these differs considerably by regime. Given this, it also highlights the need for commonly acknowledged national policies that do not vary drastically from regime to regime, creating a sense of policy inconsistency and instability.

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