

DEFENCE EXPENDITURE GIVEN PRIORITY

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In his final reply at the end of the Committee Stage of the Budget debate the Minister (as reported in the Daily News of 25.12.87) emphasised the significance he was compelled to place on defence expenditure, although it involved a curtailment of expenditure on development and also increasing the already heavy budget deficit which must inevitably lead to inflation. The Minister stated:

In spite of the serious budgetary constraints which I faced, I have acceded to each and every request made by His Excellency the President, in his capacity as Minister of Defence, for additional funds, both capital and recurrent, needed by the Armed Services to prosecute the war against the separatists. While the requests for budgetary funds made by other Ministers

have been scrutinised and slashed by the Treasury, in order to reduce our budget deficit, the requests made by the Ministry of Defence were given utmost priority and took precedence over all other requests for expenditure. In fact we acceded to the requests for defence votes and supplementary estimates as and when required. Supplementary estimates for defence and security were the only estimates allowed. The figures speak for themselves. 300 million in your time 14000 million in ours. Over 400 fold. 430 times. In 1982, the year before the ethnic conflict escalated into violence, the total expenditure on defence was only Rs. 1 billion which represented 2.8% of the Government's expenditure, and only 1% of the country's Gross Domestic Product. Five years later, in 1987, defence expenditure has escalated nearly ten-fold to Rs.10.8 billion and accounted for 15% of Government's total expenditure, or 5.4% of the country's GDP. 20% of our budget without foreign aid. I am sure that the House will agree that this was a very rapid and substantial expansion. An expansion of a type almost unprecedented in any country.

I have, as I said, given the highest priority to meeting the financial requests of the military establishment from the limited budgetary resources available to me. This did not mean, however, that I did not point out to the Government, and to the country, the severe effects which the mounting defence expenditure was having on the country's economy.

I would have been wholly failing in my duty as Minister of Finance if I had not done so. Let me explain what these adverse effects are. In the first place, the escalating defence expenditure has caused large and mounting fiscal deficits in Sri Lanka. In 1987, the budget deficit is likely to be about 12% of GDP. The House is aware of the massive world attention that is

now being focussed on the budget deficit of the US Government. Yet, this is 5% of that country's GDP. If the richest and most prosperous country in the world is unable to sustain a budget deficit of under 5% of GDP without a continuing decline in the value of its currency and the threat of a serious recession, how can little Sri Lanka.

The inevitable result of these massive budget deficits is inflation. By Herculean efforts, I had managed to reduce the rate of inflation in Sri Lanka to nearly zero, two or three years ago. It has now crept up again to 8 percent. If our budget deficits continue, we shall soon have hyper inflation with all the suffering and hardship which this will entail for all the people of this country.

The second result of our mounting defence expenditure has been a curtailment of our expenditure on development. We have not, for instance, been able to proceed with the downstream development of the Mahaweli Project as rapidly as we might otherwise have done. We have spent billions of rupees on the construction of the four major reservoirs under the Mahaweli Project but we have not so far been able to reap the full agricultural benefits from the water which they store.

The impact of reduced development expenditure on employment has been tragic. Our Government had succeeded in its first few years in office in halving the rate of unemployment in this country.

Unfortunately, with the reduced scale of development expenditure, unemployment is again rising. It is 18% today. Not only has the mounting defence expenditure curtailed development; it has also restricted the funds available for social services and welfare payments.

Recent surveys reveal increasing malnutrition among the children of the poor. This is surely a development which we must all deplore. Similarly, we have not been able to allocate sufficient funds for schools and hospitals. Schools often make do without adequate equipment and hospitals without sufficient drugs. These are some of the tragic results of the increasing demands of defence on our budgetary resources - demands which I have tried my best to satisfy.