

Government price hikes and war cause devastating inflation in Sri Lanka

By Saman Gunadasa
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Over the past few weeks, the Sri Lankan government has announced unprecedented price increases for fuel and transport, further stoking what is already the highest inflation rate in Asia—nearly 30 percent—and provoking deep social unrest.

Life for ordinary working people and the poor is becoming extremely difficult, because of a combination of soaring global oil and food prices and the government's ever-increasing spending on its reactionary war against the Liberation Tigers of Tamil Eelam (LTTE).

On May 24, the state-owned Petroleum Corporation raised prices of petrol, diesel and kerosene for the second time this year, this time by 23, 37 and 14 percent respectively. Since the start of 2007, the government had already increased fuel prices by 60 to 80 percent.

On May 28, private bus owners and state-owned bus companies jacked up transport charges by 27 percent, the second rise this year. At the beginning of June, the government lifted rail transport charges by nearly 300 percent. The cabinet is now discussing slashing or eliminating the fertiliser subsidy, which would be a deadly blow to small farmers already reeling from poverty and indebtedness.

The latest rises came after the price of rice, the staple food in Sri Lanka, jumped by about 100 percent last December. The price has since dropped temporarily, but is still 40 percent higher than it was at the same time last year.

Unable to cope, people are skipping or reducing meals, and some are facing starvation. According to a recent World Food Programme (WFP) report, titled "Hunger's Global Hot Spots", Sri Lanka is among the countries most affected by high staple food prices. The report said households were spending an average of 63 percent of their income on food, up from 52 percent last year. "Some 93 percent of the households adopted

unsustainable coping mechanisms like reducing meal sizes, skipping meals, eating less preferred food, borrowing, and selling assets".

According to a 2006-07 survey conducted by the government's Census and Statistics department, 15.2 percent of the population—more than 2.8 million people—live on 70 rupees (\$US 68 cents) a day. This income was just enough for a one meal per person. Half the population lives below 4,043 rupees per month, approximately \$US1.25 per day. In the plantation areas, where Tamil-speaking workers are paid meagre wages, a staggering 32 percent of people are living on less than 65 rupees a day. The survey excluded the war-torn Northern Province and eastern Trincomalee district, where the situation is even worse.

In a blatant bid to hide the inflation rate and thereby cut cost-of-living allowances for workers, the government scrapped the official price index, which showed inflation running at an all-time high 29.9 percent in April. According to the new index, the rate is 26.2 percent.

Since late 2005, when President Mahinda Rajapakse took office and soon resumed the war against the Tamil minority, Sri Lankans have endured cost of living increases unmatched by any other Asian country. This fact points to the devastating impact of rising war expenditure and the government's acute dependence on borrowing to finance the war effort.

At the same time, the worsening economic conditions globally and in Sri Lanka will bring deepening attacks on the living and social conditions of working people.

The Rajapakse government has crowed about achieving "high economic growth" despite the war, but the growth rate declined to 6.8 percent in 2007, from 7.7 percent in 2006. The Economic Intelligence Unit assessment published by the *Economist* magazine has predicted a sharp decline to 4.1 percent for the current year.

Speaking to the press on May 29, Trade Minister

Bandula Gunawardena lamented that the government was facing a severe financial crisis because of higher oil prices. Last year, oil imports cost \$US2.4 billion and the bill is expected to reach \$3.5 billion this year. However, Gunawardena said the government did not intend reducing the military budget.

The government allocated 166 billion rupees (\$US1.5 billion) for defence in 2008, a 20 percent increase, and last year borrowed 181,449 million rupees in defence loans from international financial markets, almost double compared to the previous year. As well, the government borrowed \$500 million last October, issuing five sovereign bonds, and raised \$ 300 million this March through a syndicate loan. Much of this borrowing also went to buy weapons and recruit soldiers, starving vital services of vital funding.

In a June 4 report, the international ratings agency Standard and Poor's (S&P) noted that on a number of fiscal and debt indicators, Sri Lanka was already an "outlier" in the agency's lowly B-plus rating category. S&P associate director Agost Benard warned: "These indicators speak (of a) much higher level of vulnerability to any slowdown in economic growth or an external shock."

Facing stiff resistance on the northern battlefields, the government is intent on utilising recent bomb attacks targeting civilians to divert workers and the broad masses away from anti-government struggles. Economists have publicly warned the government of dangerous "spiraling inflation" if workers demand wage rises.

None of the traditional parties have much credibility among ordinary people. Seeking to tap into the mass anger, the main opposition United National Party (UNP) has staged various protests, involving blaring car horns and banging cooking pots. However, the UNP, which has ruled the country for considerable periods, has been widely discredited for attacking living conditions and democratic rights, and starting the war in early 1980s.

The Janatha Vimukthi Peramuna (JVP) is trying to distance itself from the government, after helping Rajapakse take office in 2005 and maintain his rule, staunchly backing the war and pushing the government's budgets through parliament. Lal Kantha, the leader of the JVP-affiliated National Trade Union Centre (NTUC), has thundered that the JVP will call a general strike to win pay rises. During the ongoing teachers' salary campaign, however, JVP-led trade unions have declared their readiness to postpone pay claims to prevent any harm to the war effort.

People interviewed by the WSWWS were angry about the continuous assault on living conditions and the complicity of all the major parties.

Somapala, a cleaning worker, said: "This government is using the war to justify anything against the people. The government said it would finish the war soon but nothing has happened of that sort. The UNP is the same—everyone talks about the people before coming to power, but once in office they are all the same. I am disgusted with all these parties. The JVP seems to be on the same road."

Another cleaner, Hemalatha, said: "I have no faith in the government's war. All the parties, including the opposition, are the same. The JVP was part of the government earlier and showed that they also cheat the people".

A worker from the Abbotsleigh estate at Hatton, in the central plantation districts, said: "In my whole life I never faced this kind of crisis. The cost of living is simply unbearable. I have to pay double for the same things I bought just five months ago. Every month, prices are going up but our wages remain the same." He added: "We have already pawned our jewelry. Now I have no option but to take loans from local money lenders for more than 20 percent interest per month."

Shanmugarajah, from the same estate, said: "We have to work 12 hours a day to meet our expenses. After working in the estate I have to do other private work to earn more money. In the plantations, many parents are now planning to stop the schooling of their children and send them to work. Because of this spiraling cost of living, everybody in the family has to work. The government is spending millions of rupees on the war, but nothing to control price increases."

Shanmuganathan from the Startsgon estate in Hatton said: "I listen to the radio every day and I know there are fuel and food price increases internationally, including in India. It would be better to unite workers internationally to oppose these attacks. We should have an international organisation. These capitalist companies are always trying to increase profits at the expense of poor workers like us. This system must be changed for the benefit for the working people".

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