Sri Lankan government imposes prices rises to finance the war effort

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A series of price hikes announced in Sri Lanka over the last week are certain to fuel the already widespread resentment to the Peoples Alliance (PA) government. President Chandrika Kumaratunga's administration is placing the burden of its military expenditure for the war against the separatist Liberation Tigers of Tamil Eelam squarely onto the backs of working people.

The government has spent tens of millions of dollars on new military equipment following a series of defeats at the hands of the LTTE starting with the overrunning of the strategic Elephant Pass base in April.

The latest price increases include:

* On June 1, the Shell Gas Company raised gas prices steeply by 30 percent. As a result, the price of a 13 kg domestic gas cylinder jumped from 365 rupees to 470 rupees and a 37.5 kg industrial gas cylinder from 1,095 rupees to 1,425. The company had already increased gas prices in February by nearly 10 percent. Shell bought the state-owned gas company in 1995 as part of the PA government's privatisation program. Petrol and diesel price increases are also on the cards.

The gas price increase is the product of the government's ending of a welfare subsidy designed to cushion the effects of world prices. In a statement on Monday justifying the price rise, Kumaratunga said the previous subsidy of 400 million rupees ($US6 million) was “no longer affordable in view of prevailing high cost of war expenditure.” She indicated that other price subsidies and welfare measures would be wiped out because of the war against the LTTE.

* Also on June 1, the government-controlled Electricity Board announced a 25 percent surcharge on consumers who fail to reduce their consumption by 20 percent as compared to their average usage over the previous two months. The surcharge was imposed under the country's emergency regulations promulgated in May. The immediate pretext for cutting power usage is an imminent shortage due to a drought affecting the hydro-electricity producing areas. But the surcharge comes on top of the Electricity Board's decision to boost unit charges by an average of 10 percent.

* Sri Lanka Telecom, jointly owned by the government and the Japanese transnational Nippon Telecom, increased charges by an average of 20 percent from June.

* The Water Board is planning to increase its charges by 20 percent, citing the hike in gas and electricity prices.

These rises will immediately flow onto other products and services. The price of food items sold at hotels has already jumped by 15 to 25 percent and the cost of commodities produced by factories using gas as a fuel will be affected.

The latest rises come on top of a 1 percent increase in the defence tax to 6.5 percent. This tax, introduced by the Kumaratunga government to pay for the war, is an indirect tax that has been steadily increased and broadened to cover a wider range of items.

The government has also called on all private and public sector firms to “donate” two days wages from the wages of their workers into a defence fund. The “request” has provoked angry opposition from workers who are struggling to cope with the rising inflation. In May alone the cost of living index rose by 21 points to 2,505.

By all accounts, the cabinet meeting that decided on the price rises was not a tranquil affair. Most ministers lamented that they would be unable to face their electorates. Kumaratunga expressed dissatisfaction over the gas company's decision. In the end, however, she insisted that the price rises were necessary under the present conditions—and everyone fell into line.

Subsidy cuts, the defence tax and the wage “donations” are all part of robbing the masses to pay for Colombo's reactionary war. Since the fall of the Elephant Pass base, the government has been on a spending spree, buying up fighter jets and patrol boats from Israel, tanks from Czech

Republic and multi-barrel rocket launchers, small arms and ammunition from Pakistan in a desperate bid to shore up its force of 30,000 troops trapped on the Jaffna Peninsula.

In a radio interview last Saturday, Deputy Defence Minister Anuruddha Ratwatte said Kumaratunga had allocated 24 billion rupees ($US329 million) immediately for buying weapons. Appealing for unity, he said: “Sri Lankans should not protest about the higher cost of living created by the conflict because the defence budget has ballooned due to the fighting.”

Two editorials in the weekly *Sunday Times* last weekend highlighted the concerns in ruling circles over the impact of the deteriorating military situation. The business section of the newspaper bewailed the consequences for an already fragile Sri Lankan economy and suggested that even more drastic austerity policies were required.

“The nature and the magnitude of the balance of payments problem is such that some quick, drastic and possibly temporary measures are needed. Placing the country on war footing implies extraordinary measures on the economic front as well.” It suggested that the government had to cut all “foreign expenditure on non essentials” and reduce “consumption of imported items and use domestically produced goods”.

The balance of payments deficit skyrocketted by 73 percent in the first quarter of the year as compared to the same period last year. The main reason was the increase in world oil prices. When the impact of the government's huge military expenditures takes affect the balance of payment crisis will worsen.

Other analysts have pointed to the “de-spirited” Colombo stockmarket, afflicted by “disinterest shown by foreigners” that has “tormented” local investors. The prime lending rate has gone up by 0.92 to 16.6 as a result of the pressure from the government's floating of treasury bonds to finance the war.

The budget deficit is likely to jump from the target of 8 percent of the GDP to 11.5 percent. One reason is the increased defence expenditure. Another is the lower than projected returns from privatisations—few investors want to buy shares in government enterprises in the present unstable political conditions.

The second *Sunday Times* editorial entitled “Citizen Perera shot down” revealed anxieties about the social unrest that the spate of prices rises is likely to produce. “Citizen Perera” is a local term for the ordinary man-in-the-street.

After berating the government for its “bad management of the war effort”; the arms suppliers and middlemen for their “conspicuous consumption” and their “newly constructed bungalows with huge boundary walls”; and corporations such as Shell for the prices rises, it concluded:

“The war has exposed the soft vulnerable underbelly of national fiscal policy and now the country is at the mercy of various rapacious elements such as transnational companies and various robber barons... It may now definitely be too late to keep the war economy and the domestic economy entirely separate. But, if the atmosphere of insecurity that is engendered by the war is exacerbated by burgeoning economic chaos, that will be a short route to the ultimate disintegration of the social fabric. We hope this government does not want to have that disaster on its collective conscience.”

Just how the government is supposed to square the advice in the business section for “extraordinary measures on the economic front” with the fears about “the disintegration of the social fabric,” the *Sunday Times* writers did not explain.

Taken together, the commentaries underscore the crisis facing the capitalist class and all its political parties: unable to end the war and forced to impose fresh burdens on the masses, they fear the reaction of ordinary working people.

There is no doubt, however, whose interests will prevail as the government strives to resolve this dilemma. As the outcome of Kumaratunga's cabinet meeting on prices rises demonstrated, for all the ministerial handwringing over an electoral backlash, the needs of “Citizen Perera” were quickly sacrificed to the requirements of the robber barons of the bourgeoisie.