Sri Lanka: Escalating war fuels rising prices

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Since December, the Sri Lankan population has faced another sharp jump in the price of daily essentials, including rice, wheat flour, bread, milk powder and fuel. Many working families are now struggling to have three meals a day.

According to the Sri Lankan Central Bank, the annualised inflation rate for last year was 21.6 percent—the highest in South and Southeast Asia. Last month, Colombo's Consumer Price Index (CCPI) jumped from 5,955 to 6,302— an increase of 347 points, the highest ever monthly rise.

* The price of rice, the staple food in Sri Lanka, has nearly doubled in the past three months. The widely eaten samba rice almost doubled in price from 48 rupees ($US 35 cents) per kilogram last November to 85-100 rupees in January. Currently, the price is hovering around 70 rupees.

* The cost of wheat flour rose by 16 percent in January, from 59 rupees per kilogram to 68 rupees. Last year, it increased by 45 percent, pushing up the cost of bread.

* In January, the cost of petrol increased to 127 rupees ($US1.16) per litre, up from 117 rupees, while a litre of diesel and kerosene (the everyday fuel of the poor) went up to 80 and 70 rupees respectively. The domestic gas price rose from 1,300 rupees to 1,495 rupees for a 12.5-kilogram cylinder—an increase of 14 percent. Over the last two years, fuel prices have more than doubled. As a result, transport fares and fees have increased again.

* The State Electricity Board has decided to increase electricity charges by between 43 and 150 percent from March.

A major factor driving these price hikes has been the government's huge military expenditure. Since July 2006, President Mahinda Rajapakse has plunged the country back into war with the separatist Liberation Tigers of Tamil Eelam (LTTE). Like the governments of his predecessors, which were completely unable to address any of the social problems facing the masses, Rajapakse is whipping up anti-Tamil chauvinism in order to divert social tensions.

Last November, Colombo increased military spending to 167 billion rupees ($US1.5 billion) for 2008—an increase of 20 percent. In an interview with the *Daily News* on February 26, Ranjith Siyambalapitiya, the deputy finance minister, indicated that by February, war expenditure had already risen by 10 billion rupees.

In a criminal effort to crush the LTTE militarily, the Sri Lankan army is buying more weapons and recruiting more soldiers. The government is financing the war effort by imposing taxes on consumer goods, borrowing funds at high interest rates and printing more money.

In March 2007, the Rajapakse government was forced to scrap the import taxes on 10 essential food items in the face of growing anger among working people over rising living costs. The government re-imposed these taxes just after the 2008 budget was passed last December, claiming it could not afford to lose the revenue.

In the name of developing the country's infrastructure, the Central Bank has announced plans for another $US300 million loan from international money markets. The government borrowed $US500 million on the same pretext last year, but the loan was used to settle debts with other banks. In fact, these loans are being used to finance the war.

Faced with a deepening economic crisis, the government has resorted to pumping out more paper money. Harsha de Silva, an economist told the *IANS* on February 10 that between May and September last year, the Central Bank issued currency worth 49 billion rupees ($US457 million). This cash injection has contributed to rising inflation.

A *Sunday Times* comment on February 24 declared that the government's worsening fiscal deficit was causing high rates of inflation. "These deficits have been incurred partly due to the immense war expenditure, especially in recent years. What is not realised is that deficits add to the public debt and therefore to the servicing costs of the debt." Debt repayments account for 40 percent of total government expenditure.

Soaring global energy and food prices are accelerating inflation. Higher import prices have contributed to Sri Lanka's trade deficit of $3.56 billion in 2007—an increase of nearly 6 percent from 2006.

The international credit ratings agency, Standard and Poors (S&P) downgraded Sri Lanka's economic outlook from "stable" to "negative" on February 16. According to S&P, "current expenditures, notably defence and interest service, have been higher than planned. Political conditions, including recent developments in the war with Tamil separatists, continue to weigh on Sri Lanka's rating."

Apart from the civil war, the developing recession in the US, which accounts for 40 percent of Sri Lanka's exports, could make matters even worse. Bank of Ceylon chief financial officer Saliya Rajakaruna warned on February 27 that should the US economy dip by 1 percent, it could "severely" affect South Asian countries such as Sri Lanka and Pakistan. He rejected the idea that the growing trade with India was sufficient to "de-couple" Sri Lanka from the impact of a US recession.

Between 2006 and 2007, Sri Lanka's economic growth rate fell from 7.4 percent to 6.7 percent. The Central Bank has predicted 7 percent growth this year, but other analysts forecast slower rates.

Last Wednesday, the Ceylon National Chamber of Industries (CNCI) urged the government to reverse its electricity price hikes. CNCI chairman A.K. Ratnarajah declared: "The high cost of interest, the restriction of movement due to the security situation, the increasing cost of transport and services, the numerous holidays, the impact of spiraling inflation, numerous taxes and levies are an additional burden on the industrial sector. Instead of taking steps to lessen these impediments and help enhance competitiveness in a free market economy, adding up further hardships on industries by way of increased electricity tariffs would certainly destabilise the industrial sector, with disastrous consequences for the national economy."

Ratnarajah warned of the loss of export revenue, increased volumes of imports, lower tax revenue, reduced wages or loss of employment and the "gradual disintegration" of the country's industrial base. "More and more local industries will explore the possibility of relocating in other countries. Thus instead of attracting foreign direct investment, industries will move away from Sri Lanka."

Ratnarajah's comments constitute a warning to both Rajapakse and the entire political establishment that drastic measures must be taken to shift the economic burden of the crisis directly onto the backs of working people. Unless Colombo fulfills its demands, the business elite will "relocate" the manufacturing industry, a sector that accounts for 17 percent of Sri Lanka's gross domestic product (GDP) and employs over 1.5 million workers.

Already workers' wages have been cut to the bone. Private sector workers have not received any increase for four years. Female workers in the apparel sector, Sri Lanka's manufacturing backbone, have started to quit their jobs due to chronic low wages, which are not enough to pay for board and meals. Their average monthly wage is about 6,000-8,000 rupees ($US60-80).

Rajapakse has branded workers and farmers "traitors" for demanding better pay and conditions. Amid spiraling inflation, he was forced to announce a tiny 375 rupee ($US3.75) "living cost allowance" to public sector employees in the 2008 budget. However, the CNCI statement indicates pressure on the government to cut more subsidies on basic essentials. Any such moves will inevitably intensify social tensions.

The main opposition United National Party (UNP) is trying to hide the fact that it is massive military expenditure which is driving the attacks on living standards. The UNP makes various rhetorical criticisms of the government, but shares the same anti-Tamil communalist politics. The UNP launched a poster campaign on February 14, lamenting: "Expenses soar but we are short of money! Throw out the government!" But the campaign has failed to arouse any popular enthusiasm. The UNP's own record was to initiate "free-market" policies in the late 1970s and to begin the 25-year civil war in 1983.

The Sinhala extremist parties such as the Janatha Vimukthi Peramuna (JVP) and Jathika Hela Urumaya (JHU) are making right-wing populist appeals. They blame government corruption and the high cost of maintaining the world's largest group of government ministers as the main cause of rising inflation. (The Rajapakse government has 109 ministers out of 111 government MPs, in order to maintain its extremely unstable ruling coalition.)

The JVP helped Rajapakse come to power in 2005 and consistently pushed for the breaking of the ceasefire with the LTTE. Now, it is loudly protesting the rising prices. Significantly, however, the JVP has abandoned its earlier demands for higher wages for both public and private sector workers. This is the logical outcome of its "Motherland First" campaign, which calls for living standards to be sacrificed for the war against the Tamil minority.

The JHU is even more aggressive in calling for wartime sacrifice. Its posters declare: "If Sri Lankans tolerated a war [World War II] which was not ours by eating bajiri [a low-grade grain not suitable for human consumption], why the grumbling in our own war today?"

During World War II, the British colonial rulers demanded that the Sri Lankan masses make major sacrifices on behalf of British imperialism's efforts to maintain its dominant world position. Sixty years after "independence", the Sri Lankan ruling elites are demanding the same, on behalf of a war whose purpose is to divide the working class, rural poor and youth, in order to maintain capitalist rule.