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Provide water for the East

By Asvida

Water is central to man's existence. So when one community is deprived of this essential commodity, the very survival of that community is endangered. And supplying water to a deprived group can come as a blessing in a conflict-ridden zone.



Mr. Lalit Godamunne

The prevailing ceasefire was threatened when the LTTE closed the Mawilaru sluice gates depriving people in the area of water. The military forces then launched a rescue operation. Subsequently the mission was extended to liberating the Eastern province from the LTTE.

The military operation to liberate the East from the LTTE ended with Forces capturing Thoppigala and the Government celebrating victory by spending millions of rupees. After a few weeks the Government announced the launch of the Eastern development project which focused on ensuring democracy, law and order in the Eastern province and uplifting the living standards of people.

As the Government blew its trumpets about liberating and developing the East in a big way, former Secretary General of the Mahaweli Authority of Sri Lanka, Lalit Godamunne expressed his bewilderment as to

why no one in the Government or at the administrative level spoke about developing the right bank of the Maduru Oya.

Mr. Godamunne said the project was put off due to alleged opposition by the LTTE and now the Government had an excellent opportunity to complete the mission of developing the East by providing water to the province.

"The System B lies along either side of the downstream Maduru Oya reservoir in the administrative districts of Polonnaruwa, Batticaloa and Ampara. The Maduru Oya Right Bank development project was meant entirely for the Batticaloa district, which has a larger Tamil population. My personal belief is that the LTTE did not like this phase to take off in fear that they would lose control of the area," he said.

He pointed out that if the project was completed, thousands of families could have found employment and the area could have been better developed.

"If everything fell into place, the government could have won the

Contd. on page 8



INNOCENCE AND DIGNITY

Wijesinhe molds his pots with care. If only our nation could be molded with equal care and diligence. (See story on page 10)

TODAY'S ENVIRONMENT ONLY EXPENDITURE

No new industries or businesses

By A.Yapa



Trade Union Wing Leader of the Janatha Vimukthi Peramuna K.D. Lal Kantha M.P. expressing his views on the escalating Cost of Living charged that no government could combat inflation under the current economic system and highlighted the need for a production based economy.

While noting that the prices of all consumer goods and services have increased at an un-

bearable rate during the last 18 months, Mr. Lal Kantha pointed out that successive governments since 1948 have failed to control inflation.

"Even the infamous hartal in 1953 occurred due to the unbearable cost of living. Then there was talk of bringing rice from the moon - of course it was fabricated by the Sirimavo Bandaranaike faction to defeat the then Dudley Senanayake Government. Nevertheless,

the reason to come up with such an idea was the dearth of essential goods as well as the high prices. Coincidentally, the cause for Sirimavo Bandaranaike's government to return to the Opposition in 1977-78 also was inflation," he said.

He pointed out that considering past experience, it is obvious that neither the UNP nor the SLFP alone or in an alliance could reduce CoL, as the economic system itself is a

failure.

"The environment today is only for expenditure. No move has been taken to develop new industries or businesses. They have no new way of earning money - only of wasting and consuming what is earned by housemaids and apparel sector employees through hard labour," he charged.

Explaining the reasons behind the sky rocketing cost of living Mr. Lal Kantha said:

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Avoid disaster

The main theme of this issue of Ground-View is the state of the economy and the prolonged increase in prices which is the external manifestation of a problem that affects a vast majority of our people. How did we embark on this stampede towards disaster? The stampede of course is of recent origin. Yet the march towards destination "disaster" was consistent since Independence. We did have leaders with unimpeachable integrity. They had a genuine desire to develop the country and improve the living standards of our people. Free education, free medical care, food subsidies and developing land settlement schemes for the land less were their priorities. Creating wealth for the Nation was not a priority. While many other Asian countries molded nations out of societies that had a history of multiculturalism,

making it possible for them to live in harmony and set their countries firmly on the path to prosperity, we proceeded on a path to restore past glory which was in the opposite direction. As Professor Gunnar Myrdal in his three volume work- "Asian Drama - an inquiry into the poverty of nations" published in 1968 noted in his comments on Ceylon, "The goals of political stability and national unity, which involve regularizing relations between the majority and minority communities within a system of representative government seemed as far away as ever." That is not all. "An inability or unwillingness to plan on a national level was the price paid for, or a reflection of, the particularisation form of nationalism that has imbued Ceylon's politics and absorbed the interest of its politicians." These remarks made in 1968 nearly

four decades ago explain why we as a nation have now arrived at this critical point. Since Lee Kuan Yew seems to be an acceptable role model for most of our leaders let us consider two of his observations made in his memoirs. First is how important it is to adhere to laws that the government itself imposes. He states with great pride how critics compared Hongkong and Singapore as financial centres. "In Hongkong, what is not expressly forbidden is permitted; in Singapore what is not expressly permitted is forbidden." The other observation he makes is even more relevant. "It is easy to start with high moral standards, strong convictions and determination to beat down corruption. But it is difficult to live up to these good intentions unless the leaders are strong and determined enough to deal with all transgressors, and without exceptions."

To write even a brief essay on peace is simultaneously both a walk in the park as well as a walk through a minefield. It is a walk in the park because at face value one could assume that everybody knows what peace is all about, and it is simply inconceivable that someone who has not taken leave of his senses might not appreciate peace. On the other hand, it is a walk through a minefield because in specific local situations what different individuals and groups refer to as peace might mean very different things. It is precisely because of this state of affairs that peace has become such an elusive commodity in the contemporary world replete with multiple forms of conflict. What I hope to do in this brief essay is to articulate some of the ideas that come to my mind when I think about peace in our specific context.

The technical definitions of peace which are somewhat precise but varied are taken for granted in popular, religious and political discourses in many parts of the world. This is the same in Sri Lanka. As a point of departure, let me offer the six meanings for peace presented in the Webster's New Universal Unabridged Dictionary (1979):

1. Freedom from war or civil strife.
2. A treaty or agreement to end war.
3. Freedom from public disturbance or disorder; public security; law and order.
4. Freedom from disagreement or quarrels; harmony; concord
5. an undisturbed state of mind; absence of mental conflict; serenity
6. Calm; quiet; tranquility (1979: 1317).

It is to such a cluster of generally accepted meanings that I referred to as a walk in the park. Even in the present violent political context of Sri Lanka, most normal people would agree that peace refers to the first three definitions given above. At a more general level, they would also agree that the remaining four meanings would make sense to both individuals and collectives in the pursuit of personal happiness. But once that walk in the park ends, the treacherous walk through the minefield will begin.

As far as I can see, the more audible peace debate in Sri Lanka is more like a walk through a minefield where the general agreement of what peace means in technical and simple epistemological terms have been reviewed by all parties concerned, and summarily agreed upon. That is, all shades of Sinhala and Tamil ethno-cultural nation-

Thinking about Peace

alisms along with other interest groups that do not take 'nationalism' as their point of departure agree on what peace is at a very basic level. This includes the LTTE, the State, JVP and so on. It is at this point that specific cultural and politico-nationalist definitions of peace have emerged. Currently, among many such specific meanings

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of peace in the context of violent politics in Sri Lanka, there are at least three dominant definitions, one from the Government, one from the LTTE and the third from civil society.

The Government's definition of peace has notions of gaining an upper hand in military terms at ground level, implementation of a package of devolution that has not reached any kind of consensus yet even with the different support bases of the Government and an interest in maintaining the framework of the unitary state as ruptured as it is now. It is this definition of peace that has been generally labeled by government rhetoricians as 'dignified peace' or 'gaurawanwitha samaya' (in Sinhala).

The LTTE's definition of peace has meanings of entrenching its control in the areas it currently holds sway, further expanding that control into areas it claims as part of elam and ensuring that 'peace' in real terms means its hegemony in political, cultural and social terrain in any future resolution of the current ethno-military crisis. More

clearly, the LTTE's definition of peace contains within it the entrenchment of its own hegemony and the clear marginalization of other voices within and beyond the Tamil community. Interestingly, it is clear that both the Government's and LTTE's definitions of peace are based upon foundations of violence and hegemony articulated primarily on military terms.

The more dominant civil society definition of peace consists of a simple technical meaning of peace. However, the dynamics of that definition are not devoid of politics, and by that same token this particular discourse on peace is also not a domain of innocence. For instance, while the better known civil society groups unequally represent peace as their ultimate goal, its collective criticism of the non-peaceful activities of the state are far more articulate and consistent than its criticism of similar activities of the LTTE. What I want to stress then is that all these three definitions or discourses on peace meet at certain points while they diverge quite pronouncedly at other significant points, and all of them are embedded in their own politics. It is precisely due to this state of affairs that peace in real terms has been so elusive in Sri Lanka. What is muted in the cacophony of these dominant peace discourses are the expectations and yearnings for peace of average people whose definitions of peace are much closer to the first three simple meanings of peace quoted above.

For me, the fundamental problem in this scenario is the relative non democratic nature of this discourse. That is, if we take the three dominant discourses on peace I have briefly attempted to outline above, it is difficult to argue that the collective expectations and wishes of large sections of Sri Lankan people battered by war and other forms of multiple conflicts are contained there. Clearly, the discourses of peace that the State and the LTTE represent have very clear politico military agendas and frameworks of hegemony attached to them. These discourses of peace are not without strings as opposed to the yearnings of peace that often manifest in the not so audible private words of people that we may hear in different parts of the country. Similarly, the very audible peace discourse of the better

entrenched civil society networks hardly represent a people's movement in the sense of mass movement for peace that has clear popular support across the country. In fact even though Sri Lankan people may want peace, what it lacks is a dynamic all encompassing peace movement that can attract a large public following. At the moment, I simply cannot see such a reality. While some of the awareness works of civil society groups surely help contextualize the consequences of war and the need for peace, they hardly expand beyond an amalgamation of professionally organized projects, vigils, seminars, leaflets, marches etc.

So why is peace so elusive in Sri Lanka when the need for it is so clear? It seems to me that the absence of a mass-based peace movement based on grassroots organizations and individuals that can cut across ethno-cultural and regional boundaries has been a major drawback. This is particularly so when one considers the fact that the three major peace discourses have not shown any significant visionary attributes. As a group of people, we hardly seem to ask the question why peace was lost in the first place. For me at least, the answer to that question is the following: for a very long time the collective of individuals who have lived in this country have become strangers among themselves. They do not know or understand each others histories, cultures, rituals or religions. They do not speak each others' languages. They do not take part in each others' ceremonies or read each others' literature or poetry. Surely, under such circumstances the only thing that could have happened over time has happened: the loss of peace. The appropriation of the lost peace in real terms cannot come through the discourses of the State, the LTTE or civil society with their own structures of interests and politics. Peace can only come about if space is created by any or all of these entities for the people to rediscover themselves and learn about their collective fears, pains, animosities, strengths and dreams.

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They are not ashamed to speak to me. Most people who come to the shop ask for milk powder in sachets. Most of the brands of milk powder are now available in small sachets. We hardly sell the 400 gram packs. The sachets are in demand."

Andarawewa's Story



A farmer relates his struggle to make ends meet

By Manula Wickrema

P.B. Andarawewa of Paragaswewa, in Anuradhapura once served in the Department of Railways. Giving up a secure government job he took to cultivation and was soon a successful farmer in the Mahakandarawa settlement. His hard work and will to assist his fellow farmers made him a popular figure in the area and within a short time he became the President of the 'Mahakandarawa United Farmers Association'.

A man with firm opinions and an independent thinker, he describes the present state of affairs with contempt and disgust. Asked to comment on the cost of living he began by reminiscing about the past.

"A coconut was 10 cents. A bun was 6 cents. Buttered bread was 40 cents. A pound of sugar was 34 cents. For one cent I could eat three bananas. A bushel of rice was Rs. 6. When I took a bushel of rice to town, I could buy all the provisions for the house required for more than a week and was able to eat well in town and was still left with a few cents to spare. Today we don't eat we lick the plate," he said.

"A hired hand who earned 50 cents, would have his meal for virtually nothing. Today even if you earn Rs. 500 per day you can save nothing. At dawn, the next day the prices would have gone up. We are no longer in control of our lives. We cannot plan as there is no order in anything. We farmers have to buy many things and the process is complex and confusing. What we are to be given is not described precisely.

In the earlier days I spoke of there was a system in place to sell our paddy. There was an accurate cen-

sus of the farmers, the amount that was harvested and the amount that was sold, and the amount that was stored. We sold to the co-operative with no middlemen involved. Today it is different. Selling paddy is like being in a dog fight and we all end up selling our produce for a pittance and go home grinding our teeth. There is neither money nor enough food. So we are compelled to do some manual labour to earn more money."

"Do you realize the amount of money we need to spend to cultivate one acre of paddy. The tractor charge for one acre is Rs.5000. The cost of pesticides, fertilizer and other expenses leave us with so little money. That is why I said that today farmers do not eat. They lick the plate of what is left. There was a time when farmers were regarded as kings. Today they roam around like stray dogs."

"What I cannot understand is that while the financial rewards for our hard work continues to diminish day by day our expenses rise at a pace that we can hardly comprehend.

It is so unjust and is carried out in such an insidious manner, it is hard to imagine that it is not done deliberately. The rise in costs commenced gradually in the '70s. Today it is totally out of control and nothing is there to prevent this di-



Bopage Lal at his make shift stall

saster."

Mr. Andarawewa continued, "they blame the open economy, but we know what happens. They waste money on utterly unnecessary things. They sell paddy and buy milk powder, shampoo, hand phones, perfume and such rubbish. What we produce in this country and what we spend on are all non essential things described as fashionable. The problem is that the country has no discipline to determine what is needed and what is not."

The rise in prices is really manipulated. This can be clearly seen if you study the evolving relationship between the trader and the consumer. The pressures on the people in the rural areas continue to oppress them further. The small townships with a few shops and a bakery that catered to a few surrounding villages are quietly vanishing.

If you travel from Nochchiyagama to Anuradhapura on the road to Puttalam you will see that more than fifty shops which once flourished are now closed. When asked why they were closed the shopkeepers say trading has declined or people defaulted on credit sales."

W. Piyadasa who is a retired employee of the Department of Archaeology now runs the shop set up by his son who gave up the business due to his failure to recover debts. Mr. Piyadasa is generous enough to concede "these people are not cheats. Hunger makes them ask for credit. They fail to pay because they do not have the money. They are not ashamed to speak to me. Most people who come to the shop ask for milk powder in sachets. Most of the brands of milk powder are now available in small sachets. We hardly sell the 400 gram packs.

The sachets are in demand."

"Now I don't bother to bring normal milk powder packs. Why stock things that do not move. If it is dry fish the normal request is for 50 grams. We do not stock expensive items like jam, sauce and salmon. I cannot close down the shop as I too need whatever money I can make if only to settle the debts and meet my daily expenses."

I took an inventory of his stock-

- One kilo of tomatoes
- One rupee shampoo packets
- Dry fish 500 grams,
- Cakes of soap-190, in two brands
- Ten packets of condiments
- Sugar
- Dhal
- Coconut oil
- One customer who came while I was there, bought 250grams of sugar, 100 grams of dhal and a quarter bottle of coconut oil.

Bopage Lal who sells ice cream on normal days and vegetables on market days told me, "this is not what I would call life. It is hell. I packed off my wife to the Middle East. Now I am determined to establish myself as a trader. I get up very early and collect coconuts, Indian corn and breadfruit by travelling far and wide on my bicycle and reach the market early. I have a motor cycle which I cannot use as I cannot afford to pay for the fuel and keep a decent margin at the prices people are willing to pay. I had a small shop which I gave up as the rent added to my cost. Now I have a small make shift counter by the side of the road. I manage to sell some vegetables. My Indian corn sells better as it is an affordable food item."

YEAR 2006

GDP at current market price (Rs. Billion)	2,802
GNP at current market price (Rs. Billion)	2,790
Foreign Debt Ratio	40.4%
Domestic Debt Ratio	52.6%
Total Government Debt Ratio	93.0%

Source Central bank of sri lanka Report 2006

Government Debt		2007* End May	Month Ago	year Ago
Total domestic debt	Rs bn	1,560.8	1529.6	1372.5
of which				
Treasury bills		252.7	240.4	240.6
Treasury bonds		932.1	931.1	822.4
Rupee loans		117.2	117.2	140.6
Total forreing debt	Rs bn	1,210.9	1212.0	1012.3
Total outstanding govt. debt	Rs bn	2,771.7	2741.6	2384.7

Source Central bank of sri lanka economic indicators 17 August 2007



SRI LANKA CONSUMERS PRICE INDEX BASE : 1995 TO 1997 = 100

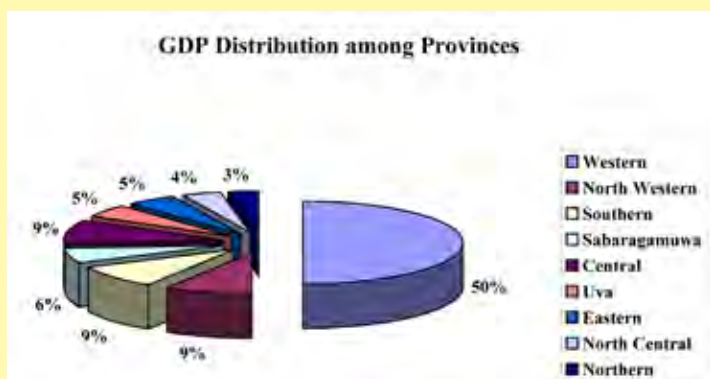
Base Value		4785.96	3407.76	193.64	625.79	99.01	114.35	140.01	40.43	62.28	102.69	
Weight		100.0%	71.2%	4.1%	13.1%	2.1%	2.4%	2.9%	0.8%	1.3%	2.1%	
Year	Quarter	All Items	Food, Beverages and Tobacco	Clothing and Footwear	Housing, Water Electricity, Gas and Other Fuels	Furnishing, H/H Equipment and Routine Maintenance of the House	Health	Transport	Leisure, Entertainment, and Culture	Education	Mis. Goods and Services	Annul Rate of Increase (%)
2005	January	191.0	191.9	150.6	177.8	160.6	301.2	215.1	170.6	181.2	203.2	
	February	190.2	190.5	151.3	178.3	160.7	303.3	215.6	170.6	184.7	202.6	
	March	187.4	185.2	151.4	184.7	166.1	305.5	215.6	170.6	191.2	202.0	
	April	188.2	185.9	153.3	185.0	172.2	305.5	215.6	170.6	191.2	202.6	
	May	187.4	183.7	153.5	187.4	174.2	314.6	219.4	170.6	194.9	206.6	
	June	187.3	182.3	154.4	189.2	174.2	314.6	236.7	170.6	194.9	208.7	
	July	187.6	181.5	155.0	193.8	174.2	314.6	244.6	175.2	194.9	208.8	
	August	186.6	179.7	155.4	193.7	174.4	316.7	248.1	175.2	196.5	210.7	
	September	187.3	180.6	156.4	193.8	174.4	316.7	248.1	175.2	196.5	211.8	
	October	189.0	182.0	156.4	199.4	174.4	316.7	248.1	175.2	196.5	212.5	
	November	191.9	185.7	157.1	200.2	174.8	317.5	248.4	175.2	200.5	213.5	
	December	195.6	190.7	158.5	200.6	175.5	317.5	248.4	175.2	200.5	213.9	
2006	January	197.2	192.2	159.0	204.0	176.3	317.5	248.4	175.2	200.5	215.2	
	February	196.8	190.4	160.5	206.2	176.6	329.1	248.9	184.2	207.9	218.6	
	March	194.9	185.9	161.7	215.3	177.7	329.1	248.9	184.2	207.9	219.3	
	April	198.1	188.3	161.7	219.4	180.9	329.1	281.5	184.2	207.9	220.1	
	May	203.1	192.7	164.1	225.8	181.5	330.3	311.3	184.2	207.9	222.5	
	June	207.3	197.6	164.1	229.1	181.5	332.3	313.5	184.2	207.9	225.0	
	July	206.2	194.4	165.5	236.3	181.5	332.3	314.5	198.7	207.9	227.5	
	August	206.9	194.1	166.6	238.1	182.2	348.7	319.0	199.0	215.8	228.4	
	September	208.8	195.6	168.0	243.6	182.0	348.7	321.4	199.0	215.8	228.4	
	October	212.9	200.6	166.0	249.5	181.8	348.7	317.6	199.0	215.8	229.4	
	November	223.3	214.5	166.0	250.5	182.6	360.9	315.1	199.9	217.5	231.2	
	December	230.6	224.5	168.5	250.9	182.6	360.9	315.1	199.9	217.5	231.4	
2007	January	232.3	226.3	168.5	253.7	183.0	360.9	316.9	199.9	217.5	232.9	
	February	232.4	225.5	168.5	254.4	190.3	368.6	317.9	200.6	224.0	236.5	
	March	231.2	222.5	170.9	259.9	193.8	368.6	318.1	200.6	224.0	237.5	
	April	230.4	220.9	171.0	261.1	197.7	368.6	321.3	200.6	224.0	238.3	
	May	235.1	225.9	171.0	264.6	198.3	384.7	326.5	200.6	234.7	240.5	
	June	241.7	234.2	176.6	266.3	199.0	389.6	327.0	200.6	234.7	242.9	

SOURCE : DEPARTMENT OF CENSUS & STATISTICS

% INCREASE JUNE 2006 - JUNE 2007 - 16.59
Ground Veiw

Province	GDP (Rs. Million)	% GDP
Western	1,401,000	50.00
North Western	252,180	9.00
Southern	252,180	9.00
Sabaragamuwa	168,120	6.00
Central	252,180	9.00
Uva	140,100	5.00
Eastern	140,100	5.00
North Central	112,080	4.00
Northern	84,060	3.00
Total	2,802,000	100.00

%of GDP CONTRIBUTION BY PROVINCE (source : CB Statistic department)

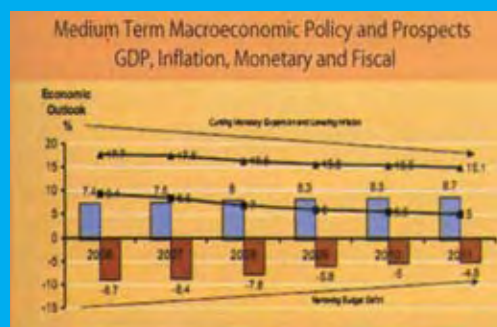
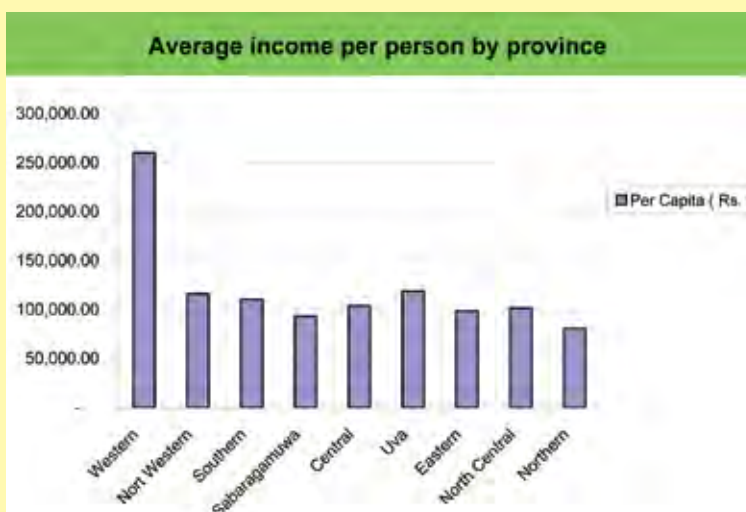


AVERAGE INCOME PER PERSON BY PROVINCE 2006			
Province	GDP (Rs. Million)	Population	Per Capita (Rs.)
Western	1,401,000	5,381,197	260,351.00
North Western	252,180	2,169,892	116,217.77
Southern	252,180	2,278,271	110,689.20
Sabaragamuwa	168,120	1,801,331	93,330.99
Central	252,180	2,423,966	104,036.11
Uva	140,100	1,177,358	118,995.24
Eastern	140,100	1,419,602	98,689.63
North Central	112,080	1,104,677	101,459.52
Northern	84,060	1,040,963	80,752.15
Total GDP	2,802,000	18,797,257	149,064.30

NATIONAL PER CAPITA 149,064.00

Disparity of National GDP per Capita among the Provinces

Province	Disparity
Western	111286.69
North Western	-32,846.54
Southern	-38,375.10
Sabaragamuwa	-55,733.32
Central	-45,028.19
Uva	-30,069.06
Eastern	-50,374.67
North Central	-47,604.78
Northern	-68,312.15



Projections %	2006	2007	2008	2009	2010
GDP growth	7.4	7.5	8	8.3	8.5
Budget Deficit	-8.4	-7.6	-6.3	-5.3	-5.0
Inflation	10.3	8.5	7.0	6.0	5.5
Broad Money supply	17.8	14.8	15.0	14.5	14.4

Macroeconomic Developments, Stability and Policy Responses in 2006

Sri Lanka continued on an economic expansion path in 2006 demonstrating its sustained resilience recording a 7.4 per cent growth rate, the highest since 1978 and an unemployment rate of 6.5 per cent, the lowest ever. Despite these favourable developments, emerging inflationary threats posed a serious challenge for policy makers. Therefore, the monetary policy thrust was persistently directed towards curbing the rising inflation pressure and inflation expectations.

Source Central Bank Report 2006

Exchange rates for Seven Months in the Year 2007			
Month	USD	INR	Euro
January	108.6970	2.4693	140.7844
February	108.7474	2.4687	143.7369
March	109.4056	2.5244	145.8541
April	110.2017	2.7023	150.3537
May	110.8144	2.7545	149.1174
June	111.4150	2.7442	149.6471
July	111.7588	2.7752	153.2828
August	113.0565	2.7595	154.5200
As of September 19th 2007	114.0700	2.8272	159.8700

Source: International Finance Statistics Central Bank of Sri Lanka



SYMBOLISM OR REFORM & RECOVERY

Affliction in the economic body

WHAT YOU SPEND MUST RESULT IN GROWTH

By Dilrukshi Fernando



Dr. Geedreck Usvatte-aratchi

“The pre-occupation with the once greatness of Rajarata is a real obstacle to this change. Let us write somewhere in gold lettering that Rajarata was once a great civilization but moved on to give those young men and women who live there now a chance in life.”

Dr. Geedreck Usvatte-aratchi graduated from the University of Ceylon in the 50's and holds a Ph.D. from the University of Cambridge. He served the Central Bank of Sri Lanka and later joined the United Nations as an economist and retired as a Director in the Department of International, Economic and Social Affairs. He has also served as an economic advisor to the Sri Lanka Government. He was a member of the UN Committee for Development Policy (CDP) - a committee advising the Secretary General of the United Nations on questions of economic, social and environmental policy. He was the executive Vice-Chairman of Marga Institute, Colombo. He was a founder Vice chairman of People's Action for Free and Fair Elections (PAFFREL)

The current sustained increase in the price of goods and services has resulted in a steep increase in the cost of living, adversely affecting the lives of low income and middle income segments of society.

Will it turn out to be a vicious spiral that will further worsen living conditions of the peasantry, the wage earner, the artisans whose earnings are indeterminate and a host of other categories of citizens whose only privilege is to live within their limited means?

Analysts who try to predict the future economic trends range from the skeptics to the sanguine.

GroundView spoke to an expert economist Dr. Geedreck Usvatte-aratchi in search of some answers.

Q: Every one worries about inflation. Should they? If so, why?

Answer: Yes, they should. But why? Inflation is an affliction in the economic body and all of us are members. Inflation is a general rise in the price level. If prices of one or two things, for example, fish and mangoes rise, even by 100 percent, we would be not be agitated. If we stop eating fish and mangoes for a while the prices will come down.

If the price of all items increase at the same rate we would not worry either. Imagine that prices of everything I buy and my wages all rose at the same rate over the same time. Except for the inconvenience of carrying mole cash in my pocket, I would not be worse or better off than earlier. The problem is that some prices rise and some don't. Prices of food rise and I spend 60 percent of wages on food. My wages do not increase. Wages are notoriously rigid and that is the essential means by which people are cheated and have to bear the burden of inflation.

Take the case of people who have some savings accumulated over a long period of time. In 2005, I had Rs.400,000 in my saving account. In 2006 and 2007, inflation was cumulatively 30 percent. Then at the end of 2007, I would have about Rs. 270,000 in real terms because I can buy goods worth no more than that, as prices rose in 2006 and 2007. If this rate of price increases goes on for six years, I would be left with close to nothing. So people who possess any savings in money are robbed of their value.

Anybody who lends money loses, and borrowers gain at their expense. Imagine I lent Rs.500,000 to Dhanavardhana in January 2006 and Dhanavardhana had increased it to two million in two years and returned the Rs.500,000 in January 2008. In the meanwhile prices increased by 100 percent.

The value of the Rs.500,000 that was returned in 2008, in terms of the prices in 2006 would be Rs.250,000. So, borrow as much as you can. You will pay less to the lender. That is why inflation

feeds on itself. Buy now, pay less later!

In a period of rising prices, how do you make money easily? Stockpile items and sell later and you will make good money. For instance, if I had 20 bars of soap in my shop and prices were expected to rise, I would hold back the stock until prices began rising. Buyers know that the longer they wait, the higher the price. The seller knows that the longer he holds, the higher the profit for him. So inflation creates artificial scarcities and worsens the process.

In this context it could indicate to investors that the right way to make money is to stock goods. And to enterprising individuals that money could be made by diverting their attention to activities involving speculation. That is destructive.

Q: But why inflation? How does it rise?

Fundamentally, it is the outcome of society to buy more than they produce. The oft repeated Milton Friedman mantra that inflation is a monetary phenomena has suppressed the very useful fundamental that, inflation is the result of trying to buy things for which one cannot pay.

How does society try to buy more than it produces? To answer that, let us divide society into three groups for convenience: government, enterprises and households. The government tries to buy more by drawing on its previous cash balances (like the money you store in a box for later use), borrowing from banks or by printing money. Enterprises try to buy more by using its cash balances or by borrowing from banks.

Households try to buy more by buying on credit, and credit cards are a great convenience to that end. Now all three groups may try to buy more, but there is only the same stock of goods. Creating money whether by printing money or by way of promises to pay does not create a single product. Prices of goods must rise. Your economy is no more than that-pile of goods and the struggle by each group to acquire more goods will raise the price or cause inflation. It is as simple as that.

The Government is trying to do a lot of things. Quite rightly, it wants to fight terrorism in the country. These terrorists are a menace to freedom and civilized life. Therefore, the Government must make an honest effort to eliminate terrorism and use peaceful means in explaining their motives to the public, in order to make it possible for the thousands of civilians in the North and the East to live a normal life. I don't understand pussy footing them by whomever, whether here or overseas. At the same time the Government is trying to build infrastructure: roads, harbours, airports, power stations, telecommunications, schools, hospitals and the lot. Who would find fault with them for that?

The Government is also providing employment on a large scale, especially to the educated youth - a very laudable objective.

Finally, the Government provides all sorts of subsidies to people to reduce hardships of everyday life, an essential means of remaining popular. Now to do all this it must raise resources.

The Government raises resources by taxing people. About 95 percent of all resources the Government maintains without obligations is through taxes. About 5 percent, the Government earns interest on loans from employees and profits from various enterprises.

It is now foolishly cutting in to it substantially by giving massive unproductive employment at the Central Bank and at the two State banks. The Government also gets resources without creating obligations when foreigners make gifts. When the Government borrows, whether here or overseas, it creates obligations and somebody has to pay. When the domestic banking system creates money to lend to the Government, they are printing money, in effect. When the Government pays out of its past receipts, it adds to spending.

This same logic applies to enterprises and households. When they spend their past savings, when they borrow from banks to spend and when they buy on promises to pay, they create more money to chase after than the limited stock of goods and the price of those goods increases. When an enterprise gets money by selling shares in the market, they do so at the expense of other people's power of expenditure and there is no addition to total net expenditure.

The sum of all this is that whenever the activities of the Government, enterprises and households add to the purchasing power, there will be inflation. The culprit is not the creation of money but the attempt to do things for which you do not have the purchasing power.

This is not to say that you must not create new purchasing power. Then your economy will not grow. The point is that what you spend must result in growth. In that sense, all growing economies are inflationary. That is fine. But if the extra purchasing, not only raises the price of goods but also destroys the markets for those goods, we would become desperate. Imagine prices begin to fall or even become stagnant. Then that economy will not grow.

Q: It is evident from your comments that the government plays a critical role in the matters concerning inflation. In that context, how much impact does a stable and structured government have on overcoming inflation?

It is not so much a stable government as a stable and coherent economic policy of a government, that could contribute to low inflation and rapid growth. It is a great pity that groups of people who are competent to arrive at such sense are either silent or have tuned into apologists for government folly.

The university community who know all this keep

In 2002, we exchanged some 22 kilograms of tea for a barrel of crude oil. In 2006, we exchanged 67 kilograms of tea for the same barrel of crude oil.

absolutely quiet while the country is taken to ruin. The Central Bank which has a core of excellent economists dole out senseless calming balm when the need is to raise alarm about the need for caution.

The government must be honest and open. It is this struggle that creates inflation, that generates struggles for higher wages and many more stresses in the economy. The people should be told about the loss of huge resources because of the rise in the price of petroleum.

In 2002, we exchanged some 22 kilograms of tea for a barrel of crude oil. In 2006, we exchanged 67 kilograms of tea for the same barrel of crude oil. The economy must absorb and suffer that loss of resources to petroleum exporting countries.

The people should be told what the government cannot afford. The people should be asked what they could cut in terms of expenditure, being faced with current resource constraints. The bogus claims by the opposition that they could do better should be exposed, that they are capable of cutting more clothes out of the same cloth. Of course, there are blatant inefficiencies in this Government. Cutting them out would be a great step forward.

There is much noise about the size of the Cabinet. Government ministers have wisely come out to explain that the need to sew up a coalition has made this eventuality imperative. However, there is enormous waste on the part of every one in Government. The President travels with huge retinues. Other ministers take their spouses and children at official expense. There is much merry making at Government expense. A cabinet of 100 people or more is a joke. Whilst recognising the need to bribe MPs with ministerial positions to keep a government intact, it is essential to find a few people with whom decisions could be taken after substantive debate. The present practice of rushing 100 cabinet papers in a sitting of 50 or 60 ministers is a farce.

A stable and coherent economic policy of that nature requires the Government to look at both short and long term. In the short term it should try to keep inflation down and the value of the rupee fairly stable, while in the long term make sure that the economy can grow. The short term also includes political considerations such as avoiding disastrous mistakes which may antagonise one or another part of the population into open violence.

We need to get out of low productivity and poverty perpetuating agriculture including plantations, as soon as we can. Agriculture contains a huge part of our labour force and moving out of the agricultural sector will not be easy but the longer we stay there, the longer we remain in poverty.

The pre-occupation with the once greatness of Rajarata is a real obstacle to this change. Let us write somewhere in gold lettering that Rajarata was once a great civilization but moved on to give those young men and women who live there now a chance in life. Plantations which imprison some 600,000 people in poverty are another trap we must escape. These are not easy things to do but to realise that they need to be done is a means to success.

Q: There has been much controversy over last year's budget allocation for defence expenditure. The recent surge of violence in the NE is yet another concern for the citizens. In your view how does a 'war-like' situation contribute to a country's inflation?

A: War is not a one party activity. The Government would not fight a war unless there were military activity threatening it or its citizens. The rise in government expenditure to fight a war was inevitable with terrorist activity all over the country. About the scale and nature of that activity, I am not competent to comment.

Wars almost always produce inflation. The Napoleonic wars in the early 19th century, the 1914-18 war between UK and Germany, the war in 1939-45, on the part of Britain, the Korean War in the early fifties and the war in Vietnam in the late sixties on the part of the US, all generated inflation.

This is because in wartime there is a struggle to divert resources for the war by government and financing it with newly printed money is part of the strategy of governments to fight for resources. The experience of Sri Lanka would be no different.

Besides, a lot of capital, roads, buildings and equipment is destroyed in war and soldiers are paid to destroy not build or produce anything. If you pay people on a large enough scale to produce nothing it would result in inflation. There are a lot of people uprooted from their homes and living in camps. They produce little but governments have to feed, clothe and find places for them to live in. Again you have a population which consumes but does not produce. You must have inflation as a

sequel.

The military exercise is a perennial source of inflation. Its speedy end would help greatly to reduce inflationary pressures in the country.

Q: A term which regularly comes up in discussion of inflation is that the balance of payment is under stresses. How is it con-

Large investments must be made with regard to telecommunications and infrastructure. Money used for defence purposes, should in fact be utilized for building of roads, bridges and houses. Switching to fiber optic cables instead of the copper wires used here, for the transfer of data from satellites in order to expand telecommunication services like in Bangalore and Hyderabad is an urgent necessity.

nected?

A: The balance of payments statement, like any other balance sheet, is an account of the external economic accounts of the country. It tells you how the whole economy balances its accounts with the rest of the world. In any given period, it is not necessary that all your payments are paid for out of your own resources or you use all your resources to pay others.

If you do not collect enough to pay for what you buy, you borrow money to do that, this time from abroad. However, you cannot go on borrowing year after year without consequences. You must pay interest and the capital. If that burden seems large to lenders they will charge you higher interest and lend you for shorter periods. When at some point lenders conclude that you are too risky a borrower at any reasonable interest rate, you have a balance of payments crisis.

In a period of inflation, if the exchange rate of your currency in respect of other currencies does not fall in the market, your exports become more expensive to foreigners than exports from countries where this has not happened. Imports to your country become cheaper than domestic products, the prices of which have risen because of inflation. Governments come under pressure not to devalue because each devaluation makes imported goods more expensive than earlier and feeds inflation further. In so many ways, inflation makes managing the balance of payments problematic. In these sorts of situations countries go to the International Monetary Fund for help and that can be costly. It is best you keep that bridge far away.

Q: How does globalization affect a third world country like Sri Lanka?

A: Third world country is a horrible phrase. I never use it. Poor country will do fine.

Globalization can be considered on two fronts, although they are connected. First, what you have in mind is, perhaps, that economies of the world get interlinked more and more. Second, is what happens culturally.

Much of globalization has been driven by advances in techniques: ships, airplanes, telephones, satellites, computers and all the rest. The net effect has been to reduce prices and increase mobility. The price of corn in England fell drastically in the 1870's when railways and large ships could carry the grain from the west of US to England. Similarly, tropical fruits and flowers are now quite cheap in temperate climates. Millions of our people go to work in West Asia and elsewhere. It is not all a blessing. Multinational corporations have become hugely powerful economic entities, more powerful than many states. Production processes are now spread widely over the world. One part may be made in Japan, another in Ireland, a third in Brazil a fifteenth in Sri Lanka and all assembled in France. Enormous amounts of money are flying all over the place through those same fibre optics and satellites that bring you much goodies and they may move lightning fast creating unmanageable problems for many countries, not only poor small countries. Globalization has made the world economy more integrated but that more integrated world is left without any practical governance, leaving powerful countries more powerful than earlier. An open economy may find it suddenly invaded by cheap imports of a good it had been producing earlier at higher cost and producers may be left without their livelihoods.

All this requires all countries, not excluding poor ones, to react equally fast. Their entrepreneurs need to be ever vigilant for opportunities for investment or markets that suddenly open. Their governments need to have smart economists who are open to ideas and information from the rest of the world.

In general economies that are open have gained from the process of globalization. These include China and India among others. That openness requires more effective internal management not less, on the part of both enterprises and governments. The world needs to think of how best to manage this integrated world economy. To begin with they had better look at the international financial institutions and secondly the problem of the pollution of the environment.

Q: How has Sri Lanka met the challenges posed by globalization?

A: Our situation is not that promising! 'Capitalism' is still a dirty word here. We yet do not have an entrepreneurial class that can move the economy massively. Government itself does not actively promote the development of large enterprises which can go to the rest of the world. Taking labour to the rest of the world is a poor substitute for the growth of enterprises in the domestic economy. That is a real problem. Some in the travel trade are beginning to hit out big. A small number of IT companies are beginning to grow fast. One or two manufacturing firms sell a bit overseas. All these enterprises and others must grow big and spread wherever they can. As developing country markets expand fast there is room for our enterprises to grow. Our Government and our economists must help them in this process. There is little more that they can do to eliminate poverty.

Q: Lastly, do you see our country climbing out of this 'bottomless pit' of inflation and what do you propose as a remedy?

A: For a short time we will be in a 'pit' for as long as we fight this civil war, prices will go on rising. Even if the war is stopped, a substantial amount will go into maintaining our armed forces, which prior to the '70s was merely a show and tell outfit at independence parades!

But large investments must be made with regard to telecommunications and infrastructure. Money used for defence purposes, should in fact be utilized for building of roads, bridges and houses. Switching to fiber optic cables instead of the copper wires used here, for the transfer of data from satellites in order to expand telecommunication services like in Bangalore and Hyderabad is an urgent necessity. India is building a new city in Nagpur, which used to be the back of beyond, a few years earlier. We should learn from them. The government must also lay the necessary conditions for enterprises and construction companies to venture overseas. The Lankan hoteliers who manage up to 12% of hotel rooms in the Maldives, and Damro Limited, which has an international sales network are the way to go.

Continued from page 1

Provide water for

hearts of Tamils and they would not have had a say as 90% of the land comes under the Maduru Oya," he added.

The feasibility study of this project was carried out by ACRES International Ltd in August 1980. In 1982 ACRES carried out an update of technical and costing data with funds obtained from the Canadian International Development Agency (CIDA). Detailed designs of the right bank (RB) main and branch canals were carried out in late 1981 and in 1982 with USAID financing.

At full development, it proposed to settle 19,654 and 14,000 families on the left and the right banks respectively, bringing it to a total of 33,654 settled families.

The Maduru Oya basin has a drainage area of 1541 sqkms and the Oya originates from Mahiyangana in the Badulla district. According to the Mahaweli Authority, this river remained under-developed until the restoration of the Vakaneri tank, Pimburatthawa tank and the Maduru Oya reservoir during the recent past.

The Punani anicut across the Maduru Oya, irrigates lands on the left bank of Maduru Oya and the development of lands under the Maduru Oya reservoir constructed during the Mahaweli accelerated programme was also limited to the left bank mainly due to the conflicting situation.

The Maduru Oya was designed for the development of both banks. There is a large extent of flat fertile lands under rain-fed cultivation extending from Welikanda to Valachchena on the right bank of the Maduru Oya in the Batticaloa district. The water presently available at the Maduru Oya reservoir is quite sufficient to provide water to the right bank.

"The Government could easily begin construction on the Right Bank development project because the planning was already done and the only problem is to find donors. Even the donors will be happy that the Government is doing something for the Tamils," Mr. Godamunne noted.

He also said that it was not clear as to why the Government shifted its attention to build the Moragahakanda development project instead of the Maduru Oya Right Bank as the feasibility report done under the Mahaweli accelerated programme had put off the construction of Moragahakanda.

"Moragahakanda project was proposed to supply water to the northern areas through the NCP canal. One problem was that geographically, the Moragahakanda reservoir is lower than the canal so that an irrigation lift has to be done. According to estimates made even at that time, the cost was not economical," he said.

He pointed out the other problem was the distance of the canal being too long that the water evaporation was high, occurring at 50% more water loss.

The Moragahakanda reservoir was the fifth reservoir planned under the Mahaweli

master plan. Its construction was delayed due to various reasons during the last 35 years.

This multi-purpose project was expected to provide domestic and industrial water supply to Anuradhapura, Trincomalee, Polonnaruwa and Matale districts. The water to cultivate 26,500 Ha of uncultivated lands annually in the Amban Ganga system and around 55Gw of hydro power could be generated annually at Moragahakanda.

The project components include construction of a dam across the Amban Ganga, about 2km upstream of the Elehara anicut incorporating a powerhouse with an installed capacity of 20Mw. This would ensure the supply of irrigated water to 81,422 Ha of land in the dry zone to meet the drinking water requirements in the Anuradhapura and Trincomalee areas and an additional water supply to the industrial zone in Trincomalee and generation of electricity.

According to the Authority, the cost of the construction work on the Moragahakanda and Kalu Ganga projects will be Rs. 7 billion. In February 2000 the Mahaweli Authority, under the Ministry of Mahaweli Development, and Lahmeyer International, in association with the Central Engineering Consultancy Bureau (CECB), Sri Lanka, United Consulting Group (UCG), Kuwait, and Chuo Kaihatsu Corporation (CKC), Japan, signed an agreement to undertake the feasibility study of the Moragahakanda development project.

If the Government accelerated the Maduru Oya Right Bank development project it will not only provide water to the sun-burnt dry zone in Batticaloa district but will also provide employment for a large number of people.

"When we absorb one area into development under a Mahaweli Project we basically develop all the areas. That includes developing infrastructure such as roads, bridges and transport which would provide employment for the people in the area. Agriculture will also be developed. Not only will the main agricultural crops but economical crops be highly encouraged so that people will have a decent income," said an official of the Mahaweli Authority.

Various activists have staged protests against the project in the area alleging that the Moragahakanda development project was only a charade to milk money for vested interests like gem mining.

It is up to the Government to decide whether it should waste money and time on a project worth less or whether it should grab a golden opportunity to rectify historical mistakes by developing the East through Maduru Oya RB project and show that minority communities are no longer given step-motherly treatment.

TODAY'S ENVIRONMENT

"the Government issued new money to the market when it was in a drastic state which subsequently ended up in increased debts and a devalued rupee."

He also said that when the Government realised it was a mistake it caused the increase of interest rates on savings in order to re-absorb money.

"The interest rates for savings went up to 18%-19%. When the interest rates on savings go up, interest rates on debts too increase. Now the interest rates for loans vary from 20% to 25%. Even the money lender in our villages in the past used to lend money at a rate of 20% and we used to call it 'gini poli' (exorbitant interest). Now investors and entrepreneurs have to pay a huge amount of interest for their loans," he said while noting that according to economic indicators, the tendency to obtain loans has decreased this year.

Mr. Lal Kantha elaborating on consequences of increased loan interest rates said that it resulted in discouraging the launch of new ventures too.

"According to the indicators, it is clear that employment in the private sector too has declined this year. All social sectors are in unrest as nobody's economic status is satisfactory. People are increasingly coming to the streets and are demonstrating against the Government and demanding solutions. But we are aware that this government too could not find solutions under the present economic system," he added.

Asked to comment on the Central Bank Governor's statement that he would resign from the post if any one could provide a new note bearing his signature, Mr. Lal Kantha's response was: "The annual Central Bank report issued in 2006 admitted that the country has failed to achieve development in the manufacturing sector despite expectations. They too accepted that the reason for inflation is attributable to the release of new currency notes. It was normally accepted that money should be issued in accordance with development but the Central Bank themselves accepted their mistake."

He also said that an ordinary Advanced Level student who had lessons in economics would know that there are various ways of issuing money into the market rather than printing new notes by the Central Bank. "Central Bank Governor Ajith Nivard Kabraal should re-read his own annual report in 2006," Lal Kantha said.

As remedies for the high cost of living he could suggest as a trade union leader that there are short-term as well as long-term solutions that a government could take.

"For instance, an immediate step this government could and should take is to reduce its jumbo Cabinet. Various people charge that it wastes public funds unnecessarily but I see it in another way. More than wasting public funds it leads to a complete collapse of public administration. Imagine a family where father, mother and children are all trying to become Head of the house. It will create only chaos and in the same way when a country has two to three ministers to look after one portfolio it creates problems. Nobody knows who is responsible. So the first step in order to bring down inflation would be reducing the number of ministers," he said.

He however noted that the Government is not capable of doing so as the moment it starts reducing the Cabinet it will also start reducing its so-called stability.

"On the other hand, the Government could also start collecting taxes from people. Even though the Executive President is the Finance Minister, the Government has failed to collect due revenue from tax payers."

He also charged that even though the names of culprits were revealed with all the details about corruption and malpractices, authorities have failed to take any action against them.

Emphasising on the need for a manufacture based economy in order to combat inflation he said: "It is up to the working community to decide whether they should continue going from bad to worse or whether they should end the vicious cycle."

Rising Average Prices and the Unraveling Economy



By Dr. Dayaratne-Banda

Sri Lanka has been experiencing an unprecedented rise of average prices in recent years. The annual rate of average prices has reached more than 15 percent, while the monthly official rate of inflation has been about 18 percent for the past few months.

On the other hand, there is a debate ongoing on the accuracy of the official rate. Some argue that the rate of increase of average prices in Sri Lanka is underestimated. Some even provide guess estimates of the inflation saying it is more than 25 percent at present. On the other hand, official bodies of the Government countering these arguments points to the conspiracy theories and in fact argue that the rate of increase of average prices in Sri Lanka is an over-estimation, and goes on to say a new price index to measure inflation should be created. This debate actually misses the main point.

The fact is that the official rate of increase of average prices in Sri Lanka is closely an accurate measure of inflation, and that even the official monthly inflation rate in Sri Lanka, which is now about 18 percent per month, is an unbearable rate of inflation for an economy like ours. The issue here being not whether the rate of inflation in Sri Lanka is an under estimation, but whether the economy can progress under the current official rate of 18 percent. I would argue that an 18 percent monthly inflation rate is highly disturbing. The economy would pay the price dearly if measures are not taken to curtail the rate to a single-digit level.

There is also an ongoing debate on the causes of inflation in Sri Lanka. According to theory at least there are three major sources of inflation. One is that inflation is demand-pulled meaning that inflation is caused by an increase in aggregate demand due to increased private and government spending. Inflation originates from the supply of money.

Inflation may be caused by an increase in the quantity of money in circulation in relation to the ability of the economy to supply. There is clear evidence in Sri Lanka in support of this view. In recent times, war spending has been raised remarkably due to intensified conflict. In addition, other sources of Government spending have also risen as the Government has implemented various social welfare programmes in keeping with election promises.

As a result, the budget deficit has increased substantially. Political instability and the intensified war have also curtailed the financial sources of the budget deficit. Sri Lanka has been depending on various foreign sources for its budget deficit, including foreign loans and aid. But, since the Government has been pursuing a policy that is not consistent with the main aid donors in resolving the ethnic conflict, the donor funds have been squeezed. This has compelled the Government to seek domestic inflationary sources for financing the budget deficit. Government has turned to inflationary sources for financing the budget deficit resulting in printing of too much money. It is reasonable to argue that increased inflation in Sri Lanka has been mainly driven by the intensified civil war as well as deliberate increases in other social welfare spendings.

Another reason for inflation is the cost-push concept, which is termed as supply shocks, caused by drops in aggregate supply due to increased prices of inputs. High rate of inflation experienced at present is partly caused by the rising oil prices. Sri Lanka's economy is heavily dependent on oil as a major source of energy.

Almost all the sectors of economic activities use oil as a primary source of energy. In recent times, due to the rising world oil prices, the cost of production has increased. This increase in input prices should normally reflect in the final product prices. Moreover, domestic price of oil is also driven by depreciating foreign exchange rates which are caused by various factors including political instability and intensified civil war. Sri Lanka also does not have a mechanism of buffer stocks to stabilize the oil prices. It is reasonable to argue that rising oil prices is a significant source of increased average prices in Sri Lanka.

Inflation may also be induced by expectations. In times of inflation, workers are trying to keep their wages up with a view to maintain the current level of real income. Then the employers pass higher costs of labour on to consumers. The increased averaged prices in the economy lead to even more increased prices as part of a vicious cycle. This is normally termed built-in inflation which reflects events in the past, and so might be termed as hangover inflation. In recent times, salary hikes became a norm in Sri Lanka due to pressure from the labour unions, and this might have translated into higher than anticipated rate of average price changes in the economy. Increased inflation has also compelled workers to seek higher nominal wages.

Inflation creates many problems in an economy. People with fixed incomes, such as government servants and other monthly salary receivers, will be worse off in real terms due to higher average prices and equal income as before. This results in reduction in purchasing power of their income. Rising inflation also results in trade unions demanding higher wages, as wages have to be adjusted to keep up with rising average prices in the economy. Demands for higher wages would result in higher nominal wages and this would in turn translate into higher rates of average prices. In times of inflation, there would always be

Another reason for inflation is the cost-push concept, which is termed as supply shocks, caused by drops in aggregate supply due to increased prices of inputs. High rate of inflation experienced at present is partly caused by the rising oil prices. Sri Lanka's economy is heavily dependent on oil as a major source of energy.

pressure to raise the rate of average prices. Higher average prices in the economy also divert the economy's resources from productive sources to unproductive sources. Higher average prices in turn are likely to retard the rate of economic growth in the medium to long run.

What can actually be done to curtail inflation in Sri Lanka? In this connection, we need to take into consideration the fact that many economic problems may have many different solutions. But, there is only one optimum solution. To curtail the rising average prices in Sri Lanka, one has to address issues in both demand and supply sides of the economy. There are at least four policy options for consideration, but many of them can not be implemented.

Some schools of thought suggest raising interest rates as a method of controlling high rate of rising average prices. But this can have negative effects on the economy. Raising of interest rates would lead to reduction in overall investment spending in the economy as cost of borrowing increase. There are clear evidence in Sri Lanka to suggest that the economy suffers due to increased interest rates. Because of these reasons, it is not possible for a responsible government to raise interest rates as a method of curtailing inflation as it tends to sacrifice country's long term welfare for fighting current problems.

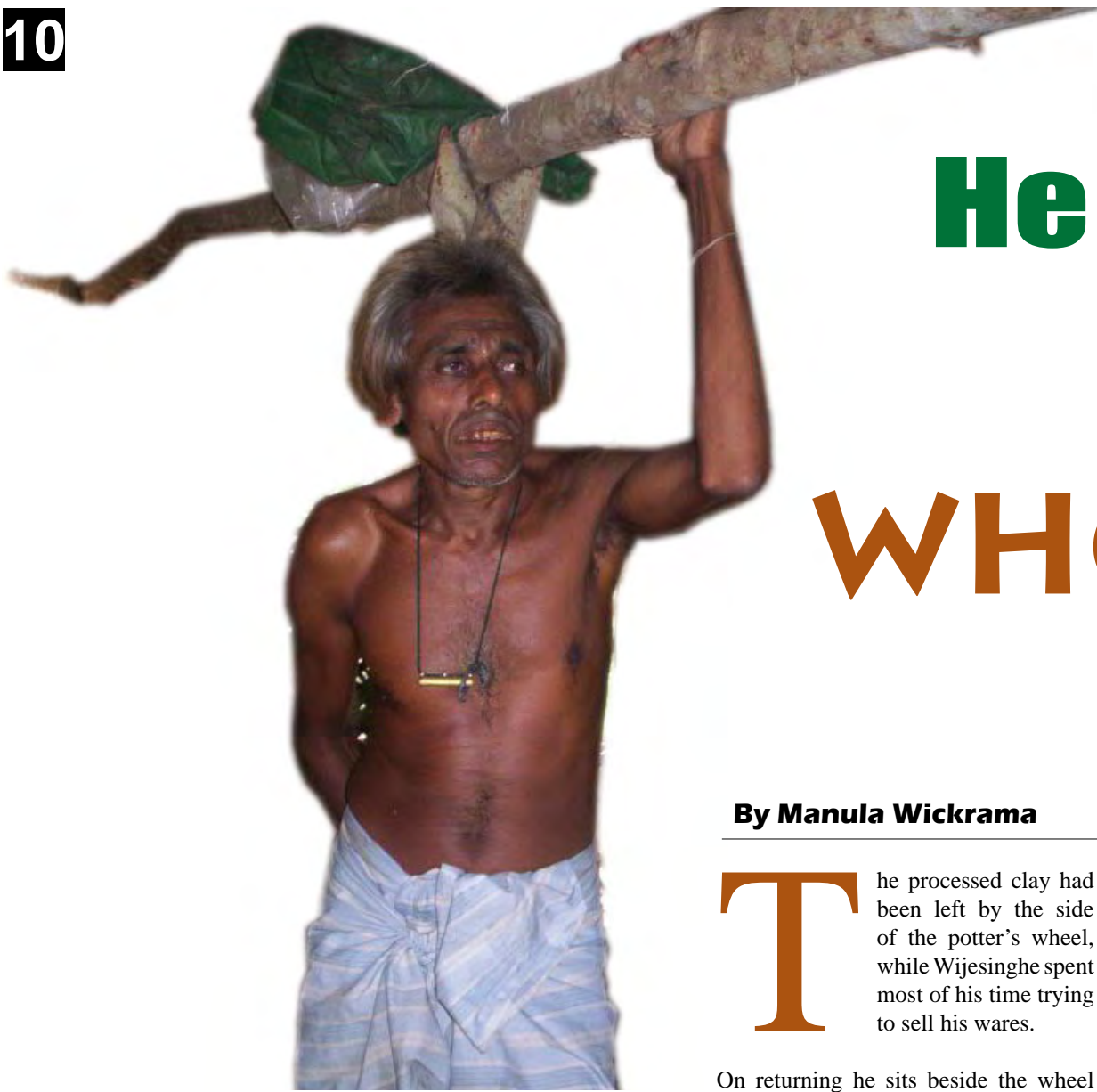
Another method for controlling higher average prices is to control wages and prices. This is impossible in a country like Sri Lanka. Labour unions are highly politicized and they have a strong influence over the Government.

On the other hand, as inflation is eroding the real income of workers, it is reasonable for the workers to demand higher wages. In a market economy, price controls are a bad policy option. If one chooses this option in Sri Lanka now, the consequences would be very serious. Wage and price controls are also undesirable and unimplementable in Sri Lanka at the moment.

The third alternative is to control input prices mainly by controlling oil prices. The Government is not able to reduce oil prices as they are determined in the world market. Depreciation of exchange rates have also raised the domestic prices of oil. Sri Lanka also does not have foreign exchange capacity and resources at the moment to create buffer stocks and use buffer stocks as an instrument of stabilizing domestic oil prices. This option is also unimplementable as a result of this.

Another method is to reduce aggregate demand in the economy. As we argued before, the inflation in Sri Lanka has mainly been driven by increased government spending as a result of deliberate increase of various social welfare spending and war spending. This led to printing of too much money. On the other hand, foreign sources of financing the budget deficit have depleted as the international community uses peace talks as against war as a condition of concessional aid to Sri Lanka. As war has intensified and there is no mood to stop war and go for negotiations, there is little interest in the international community to help the Government to finance the budget deficit arising due to war. This discussion makes it clear that there is only one feasible option for the Government to curtail inflation in Sri Lanka. That is to curtail government spending and stop creating inflationary pressure in the economy by printing the too much money. But, in order to achieve this, war has to be stopped and negotiations for a political solution should emerge. In addition, the Government may need to think of curtailing other sources of government spending by rationalizing various government programmes. One thing is clear. If the Government wants to curtail inflation, it has to cut down spending which can be done only by curtailing war spending. To do this the war has to be stopped. But, the sad reality in Sri Lanka at the moment is that there is no mood in the Sinhalese polity to stop war and go for negotiations. There is also no way of getting foreign aid to finance the war as the international opinion is not in favour of war at the moment. There also seems to be a well-received political slogan in the Sri Lankan polity at the moment that war should be fought at any cost. There is an increasing demand from the people to be ready to sacrifice anything for the war. Should the country sacrifice everything for an unending war? **The economy is in a total mess. No one knows for sure where we are heading. In fact, Sri Lanka appears to be progressively moving backwards. Many think that the economy is moving forward as there is a cycle of illusive thirst for nominal increase of income due to inflation. The people do not seem to understand that the economy is in fact progressively moving backward as result of bad policy choices.**

Dr. Dayaratne Banda is a Senior Lecturer in Economics at the University of Peradeniya. He holds a PhD from the National University of Singapore. His current research is on a "sub regional approach to a global single currency" and "on inflation - growth connection in Sri Lanka."



Wijesinghe

Their eldest child was born mentally retarded. His two sons Amal Harshana and Damith Harshana are preparing to sit for the year five scholarship examination.

He decides the pottery

WHO DECIDE OF THE

By Manula Wickrama

The processed clay had been left by the side of the potter's wheel, while Wijesinghe spent most of his time trying to sell his wares.

On returning he sits beside the wheel determined to finish his days work even if he has to work late into the night. While carefully placing the clay on the mould, a slight gust of wind comes through his broken hurricane lamp and kills the flame. He relights the lamp and bends over to protect the clay from getting soggy, due to a constant drizzle that torments him through a leaky roof above his head.

In the kitchen, his wife Ariyawathie was engaged in a battle of her own to light a fire with a few pieces of fire wood that were already soaked, since water seeped down the wall of their wattle and daub hut, which they called both home and workshop.

Oblivious to the struggles of their parents to keep their home and hearth warm, their three children, begin amusing each other by throwing small pieces of clay. And so another night begins for the Wijesinghe family.

Wijesinghe is 51-years old. When the Rajangana settlement began in 1969, Wijesinghe's father bought a piece of fertile land in the Kala Oya basin and settled down to begin a new life for himself and his family. When they moved from their native Giriulla, Wijesinghe had two other siblings, a brother and a sister who were three, and two years old.

On this plot of land the older Wijesinghe commenced his new life by turning out clay pots and other traditional clay kitchen utensils using the golden hued supple clay that was found on his new homestead.

Wijesinghe inherited the land and continued his father's vocation. Today his main vocation is to produce clay pots for curd which he supplies to a trader. "I sell a pot for Rs.4, only if he buys my entire production," he says gesturing to the trader, with an apologetic smile. How much do you sell a pot of curd for? I asked the trader, "the best price I get is Rs.20 per pot and paying Rs.4 for the pot is the best I can do. I cannot increase my price as people can do without curd and selling it at Rs.20 per pot is also hard."

Wijesinghe is capable of making a 100 to a 150 pots per day when he operates

the potter's wheel. He ne process the clay and ano primitive kiln. In additi wife must find the wood t He also makes about fifty hold a measure of rice. T in the market for Rs.45 p traders offer him Rs.23 p of fifty. Roughly five to in the process of drying proper shed to dry them temperature. A few more the kiln.

When asked if he made profit he replied, "What p attempt to mask his irrita think the price of pots go price of rice, flour, and s have to pay Rs.1,500 for a firewood. That is Rs.3000 I use the kiln twice a mo three hundred pieces per According to that count making about Rs. 400-50 to which Wijesinghe rep was possible don't you have built a shed and al my roof?"

Wijesinghe's greatest w having a shed to dry his before they are put in the



At the speed of his wheel he loses the value of a rupee

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of the roof over their kitchen has virtually come down with gaping holes on the wall due to water seepage.

Their eldest child was born mentally retarded. His two sons Amal Harshana and Damith Harshana are preparing to sit for the year five scholarship examination.

As an experienced artisan producing quality pottery, there is a demand for his products. His dream is to build a proper work shed and increase his production by hiring additional labour. His only problem is that he cannot afford to set aside any of his earnings. He has to meet the needs of his two school going children.

"What I earn for a day is spent the same day. Sometimes I run short and then I have to borrow. That is not a problem. The trader who buys my pots knows that he can recover it on my next delivery. Unable to sustain himself and his family, I asked him why he continues in the same profession.

"This is the profession I inherited from my father. It was not always this difficult. I made enough to keep my family well fed. If I look back on the last four years I may have increased the price of a pot by about Rs. 2. But the price of a can of kerosene has gone up by how many times? When I work in the night I

spend Rs. 8 per night.

I am still fortunate to find my clay on my own land. If I had to bring clay from outside I would have fallen from the frying pan into the fire."

The day I visited Wijesinghe's home, I did not see any sign of the fireplace being lit in the kitchen. All kitchen utensils were washed and arranged upside down.

Though oppressed to the limits of endurance by the burden of living and feeding his family of four, Wijesinghe is aware of his obligations to his other siblings. He provides his sister who has no regular income a part of his processed clay and fire wood.

Wijesinghe's sister - Piyaseeli who is a widow living with her son, needs to make at least Rs. 3000 to settle her accounts with the shopkeeper who gives her credit.

"I need to make at least twenty cooking pots so that I can sell each at Rs. 20 per piece and look at my hands, they are full of calluses and I get dizzy under the hot sun. My son told me that he can no longer suffer in this hell and went today for an interview to join the army." She said with a bitterness that made me wilt.



In the Ratnapura district, like most other areas of the country, the quality of life for the communities that dwell there is rapidly deteriorating. This deterioration is so rapid that they are left with hardly any time to catch their breath, let alone have a peaceful night's sleep before the next day's trials begin.

Dreaming of a peaceful nights rest

By Manori Gamarala

The people of Embilipitiya, the largest town in Ratnapura consisting of 40 Grama Sevaka divisions, succinctly exemplify this desperation, with the Samurdhi Office reporting that one fourth of the over seven thousand population are presently suffering from malnourishment, while nearly forty percent are dependent on Samurdhi aid.

Life in the wattle and daub hut of 31-year-old Nihal Vasantha, a fisherman from Wewasirigama, has not been easy, but lately things have become desperate. Nihal says he and other fishermen like him are now hard pressed to earn their daily keep, let alone keeping their children fed and clothed. He confesses that lately his thoughts have often turned to stealing or other vile deeds just to find some money, and has been deterred only by the thought of his four children.

"We are originally inland fishermen. About a year ago, daytime fishing was prohibited in order to prevent illegal fishing in the daytime by non-fisher folk who deplete the stocks of fish reared by the fisher folk out of their own money. Now we lay our nets and fish from about four o'clock in the afternoon till eight o'clock in the night and then go back around five in the morning to recover our nets, which contain almost nothing because fish are so scarce. The twenty two boats which were engaged in fishing some time ago have now been reduced to just four."

The scarcity of fish and the new fisheries regulations have forced fisher folk like Nihal to give up fishing and resort to engaging in odd jobs as labourers and vendors in order to make ends meet. "I now sell a small variety of marine fish which I have to buy from places like Mirissa and Tangalle on the coast, and earn about seven hundred rupees a day. The additional money I need I have to earn by doing manual labour," he says.

Traditionally, just over 35 percent of the population of Embilipitiya is engaged in agriculture. Most farmers have turned to supplementing their incomes by sowing crops such as onions, corn, kurakkan and chillies in any spare

The plight of those in Ratnapura has turned to desperation, due to the rising cost of living they spend many sleepless nights worrying about how to get by.

land available. The farmers sell their produce at the Embilipitiya Economic Centre, which was earlier a bustling vegetable and fruit exchange situated on over four acres of land, but is now hardly frequented.

W. Jamis is a 65-year old farmer from Moderawewa who cultivates paddy and a few vegetables on a two acre plot of land. With inflation soaring sky high and the prices of essentials such as dry fish, dhal, sugar and tea increasing steadily, even a humble farmer now needs a princely sum of 10,000 rupees a month to meet his day to day living expenses. "I harvest roughly a hundred bushels of paddy per season, of which I sell a majority for about Rs17 a kilo and keep the rest for my own use. Even though I also have a vegetable crop, vegetables are fetching extremely low prices these days. With the prices of everything being so high even a visit to the doctor's now costs Rs. 200," says Jamis, who engages in manual labour even in the evening of his life, just to make ends meet.

Another farmer, W.M. Wimalasena of Aliyamalahena complained that the way things were, it was doubtful that the next generation would engage in farming because the occupation has now become so unprofitable. "Even a crop like karawila which should fetch about thirty to forty rupees now fetches only about Rs. 20," says Wimalasena.

With people hardly able to feed and clothe themselves the last thing they are able to afford are

luxuries such as new furniture. Unfortunately, this adversely affects the large section of the population employed in trades which produce just such luxury items, such as A. Samantha, a father of two and a carpenter by trade.

"I need at the very least Rs. 8000 a month for my water, electricity, and other bills because my trade is such that I use electrical equipment. I can charge about Rs. 1,600 for a set of windows and about Rs. 4000 for a drawing room suite if the customer provides the timber. Making roofing timber also used to provide me with a decent income. But today nobody is interested in drawing room suites, let alone a bed to sleep on or a chair. What use is a bed if you cannot have a peaceful night's sleep because you are worrying about how to make ends meet," is how Samantha hits the nail on the head so to speak.

While the general public is under the impression that with the prevailing high retail prices of food items and considering the fact that people have to eat to survive, traders are up on the deal, traders like twenty-four-year old Nihal Iroshan who runs Luckymal Groceries at Navanagaraya, in close proximity to the Weekly Fair and the Economic Centre at Embilipitiya are quick to dispel this common belief.

"The Nawanagaraya Weekly Fair is held on three days – Tuesdays, Wednesdays and Sundays. Earlier our business was booming, as about 7500 to 10,000 people consisting of farmers and traders from Ratnapura, Moneragala and Hambantota districts would visit the fair and invariably buy things from our shops too. But these days there is hardly any business because people are so short of money.

"Some time ago this area came under the Embilipitiya Pradeshiya Sabha but now it is run by the Urban Council", says Iroshan of the public market where he runs his business, which is proximate to the Weekly Fair and the Economic Centre at Embilipitiya. "When it was under the Pradeshiya Sabha we paid a monthly

rental of six hundred rupees – but now we have to pay three thousand rupees. Even though they have increased the rental they do not even employ a guard for the complex like there was before. Recently four shops were broken into and money, phone cards, groceries and other items were stolen. This kind of thing results in huge losses and we are unable to meet the steep rental", he complained.

With poor food to eat and increased stress and strain, medicines are one kind of item which is in high demand, says C.L. Lakmini, a mother of three who owns a pharmacy, with the demand for drugs being mostly by patients suffering from diabetes, cholesterol and blood pressure. "More people are now resorting to state run pharmacies for low cost medicines and we suffer as a result. Even the customers who buy medicines from us often buy only half the quantity prescribed because they can't afford to buy the full prescription", she says. The pharmacy has a turnover of about ten thousand to fifteen thousand rupees a day resulting in a monthly profit of about rupees fifty thousand, but with ever increasing phone and electricity bills and government taxes being slapped on them from every possible angle, this profit seems to be diminishing before their eyes, says Lakmini.

With the present monetary difficulties the country is facing, an ever increasing number of parents are realizing that the only means to escape from the death clutches of poverty is education. Nearly fifty percent of a middle income earning familie's monthly income is spent on their children's education, even in spite of the severe economic hardships they face, because they realize that this is the best investment they can make.

Over twenty seven thousand students receive their education in forty eight schools in the Embilipitiya Educational Zone, with seven of these being situated in the Embilipitiya Town itself. A.P. Kumarasiri who is a Geography Teacher at the only National School in Embilipitiya Mahaya Maha Vidyalaya had this to say:

"My wife is also a teacher and our joint salaries amount to about thirty thousand rupees. Of this we spend about four thousand rupees a week on traveling and food expenses. Those days we used to travel a lot discharging our social obligations. But now with the high cost of fuel and transport, we cannot afford to do this. Now we travel much less and meet only the very essential of our social obligations.

"Because of the price of things we have curtailed our expenses greatly and now even grow some vegetables at home. Fish and meat is out of the question. We buy milk food for our children with a lot of difficulty.

Fifty seven year old Embilipitiya resident Danasiri is a cultivator and a small scale industrialist who established himself in the early 1990's but who has now gone bankrupt. A booming short-eats business has now been reduced to next to nothing. "Earlier I bought a kilo of maldive fish for ninety rupees, today it costs six hundred and fifty rupees. I had to let all ten employees go and today my wife and I do the work, but I am totally dependant on my children because I have no sales at all.

I even used to post goods to places like Nuwara Eliya, Galewela and Malsiripura. Now postal costs have gone up by five hundred percent – and this has caused great difficulty. Then I resorted to selling my ware in places close to my home to which I traveled by bus but the increasing bus fares put an end to this as well", lamented Danasiri.

Life for the almost thirty four thousand strong population of Embilipitiya is a constant struggle, declining so rapidly that people don't even have the opportunity to resign themselves to their fate, as every new dawn brings upon them new challenges. With social challenges like poverty malnutrition and the sheer desperation of people increasing every day, if the current apathetic attitude of the authorities is not abandoned and the situation is not looked into proactively, the Government is soon going to have a humanitarian crisis situation on their hands.



Malcolm

fish is not something we can target and catch. foreign vessels fish in our waters and sell their catch to the local market at lower prices

Stories of hardship from Puttalam

By: PRASAD PURNIMAL

While moving around Puttalam and engaging in conversation with people in varied vocations, the general feeling among those in the district and their views about the rising cost of living were expressed.

Forty-eight-year-old Warnakulasooriya Malcolm Fernando, a Prawn Farmer of Pinkattiya Village in Udappuwa Chilaw said: "I had given up prawn farming totally for some time due to the "White Spots" virus that affected the prawns. I have three persons working under me as we have to be vigilant during the day and at night to protect the prawns from thieves and as such it is difficult to keep the workers going for a long time due to the nature of the work."

"With the price of every article going up and having to import everything from the prawns onwards, with a large amount having to be spent on the food for the prawns, we find it very difficult. Besides, the transport costs have escalated and as we are stationed over a 100Km from Colombo we incur heavy costs on transport; but it does not result in obtaining a favourable price. We are facing a great setback as the prawns fetch only Rs. 350 per kilo whereas in the earlier harvesting it fetched Rs. 450, resulting in a drop of Rs. 100 per kilo in comparison, though the relative expenses have gone up," he said, adding that it was not possible to give his workers a good wage. How can it be done when I am losing heavily," laments Malcolm Fernando.

Travelling to the Anamaduwa Electorate I next met a 48-year-old private bus driver - K.M Sisira Dharmarathne who operates from Anamaduwa to Colombo. He has three children.



Sisira

Mr. Dharmarathne said his profession was now in danger as most people preferred to travel by ordinary bus or train. This he says has resulted in the daily turnover dropping by over Rs. 2000 affecting his salary too; with his and the conductor's salary lowering by Rs. 150 daily.

"When the prices of goods increase the salaries in the public sector too increase whereas it seems to be the opposite with us. In our vocation no proper rules and regulations are enforced and the bus owners are only intent on making money depriving the commuters of a proper service," he said.

In Puttalam itself I spoke to 52-year-old N P Shahul Hameed, who had seven dependents. He has been working as a newspaper agent in Puttalam for the last two decades. In his own words "at the initial stages the sale of newspapers were very low but it increased rapidly with time as it was the only medium which enabled people to have a connection with the world. However, sales have declined heavily now, with the leading Sinhala national newspaper the Lankadeepa selling only 175 copies daily.

"The people cannot afford to



Shamika

spend thousand rupees monthly on newspapers, as they do not have money. All this has caused our profits to drop although on the other hand the prices of everything has increased. The politicians make all sorts of promises to gain power but forget them no sooner they take control of Governance." He concluded by saying that the government should find a remedy to counteract the rising price of fuel even by limiting other relief measures and concessions.

Also in Puttalam, I came across Shamika Fernando a young mother of two children who is 32-years old and operates a small garment factory. She had this to say. "I began this job with a lot of hardships having only one sewing machine and without any employees; but today I have 20 employees working under me and I am engaged in the business of sewing dresses and making shoes, there is a large demand for this making it difficult for me to meet the demands in time for occasions.

Besides, I supply my finished items to some well known outlets. However, although our basic expenses, transport, wages, cloth and the price of other affiliated items have increased in a big way, we are unable to increase our supply rates. I am of the opinion that



Roshan

if this situation continues all my efforts during the past six years would have been a waste."

"I achieved all this through my own efforts as I was interested in this sector from the day I left school, which made it possible for me to start this business. If it is not possible for me to proceed due to financial constraints not only me, but 20 other families will be affected.

Next we heard what Shantha Douglas Fernando of Kakkapalliya in Chilaw had to say regarding this situation. "I am 40 years old and I have three children. Our family has been carrying on this salon at the Kakkapalliya Junction for the last 45 years; my father for 25 years and by me now for the last 20-years."

"At the start the charge levied for a hair-cut was Rs. 7 but now, I charge Rs. 50; but the Rs. 7 that we got then went much further than the Rs. 50 that we get now; as the price of everything from electricity to water has escalated."

"The goods we buy spending Rs. 1,000 will not be enough to fill even two shopping bags as the rupee has depreciated a great extent. All the governments that have shouldered power should take the responsibility for this; and even we as citizens are duty

bound to help ease the rising cost by planting Jak, Coconut, Breadfruit etc."

"Small countries like ours should try to limit the use of oil and gas if we are to progress. We should try to use firewood for cooking purposes. I come to this saloon every morning from my home which is about 3 kilometers from here on my motor cycle, but I am thinking of reverting to my bicycle or to travel by bus or train in order to curtail the expenses."

I then moved on to the Thuduwawa village in the electorate of Nattandiya where we met 48-year-old, Loyel Pieris a father of three children, at a protest rally organized by those engaged in the fishing industry.

These fisherfolk have been engaged in protest rallies against oil hikes, prompting the Government to grant some concessions.

Mr. Loyel said he has to spend about Rs. 1500 for a day on oil, but a catch of fish worth about Rs. 2000 was very rare. He went on to stress that many people of the Thoduwawa village had given up fishing. It is not possible to increase the prices of petrol and fish is not something we can target and catch. "In the face of these great injustices foreign vessels fish in our waters and sell their catch to the local market at lower prices which have affected us very badly," concluded Mr. Pieris.

Thirty-five-year old R. M. Roshan Jayaweera of Kakkapalliya in the Chilaw electorate who is engaged in the business of cushioning also related his story of hardship.

"I am a bachelor having five dependents and six business people working under me and my main business is the cushioning of vehicle seats. It has been six years since I began this business and everything has gone up in price ever since then. The bottle of gum that I use to buy at Rs. 950 is now Rs. 1,515. However, we cannot charge our customers exorbitantly. The situation is very acute and has risen to a point from which it may not be possible for us to carry on," he said.

Hard earned savings and reserves are being wiped out due to the rising cost of living notes Udayar, from Jaffna.

Diminishing savings



Sakkodai Arch Bishop James Pathinathar

We are spending all our savings and reserves because of the increasing cost of living," said 54-year-old. P.Jasintha with a great sigh.

Mrs. P. Jasintha began sharing her pent up frustration as soon as she was asked how she managed to survive the continued price hikes of essential items. She continued for about 15 minutes pausing only to regain her breath.

"Who knows about our plight in Jaffna? Even if we eat rice and sambol for lunch, who cares even if we just wash our faces and occasionally engage in light banter as if we had chicken curry for our last meal. We used to hide our personal difficulties and worries, only wanting to live with dignity among our people. But now we have gone to the extent of sharing publicly our poverty and difficulties since we can't find any way to end our suffering."

"I have five children. My eldest son has been missing since he was arrested by the army. I strived to bring up the rest of my four children. One son met with an accident and he is disabled. Somehow I managed to get my daughter married. Now my husband and two sons are living with me. I am struggling to prepare a meal a day for them. Prices of all the commodities are sky rocketing. We are living in the midst of many hardships. On one hand, clashes are going on. We are worried about the safety of our children. Our constant worry is what will we do for our next meal and where can we find it. What can we do, if prices are increasing like this? Now a match box which we bought for 5 cents a few decades back..." is Rs.5/ Being distracted by a dog, she points at the animal and says "look at that dog will you...see how it looks...if peo-

ple have enough to eat, only then can they feed the animals. That dog is trying to eat the rooster because it feels hunger, but I am planning to sell the rooster for two thousand to a priest."

When asked if it was fair to sell a rooster valued at Rs. 800 for Rs 2000, she answered without any hesitation "yes even the price of a fowl has increased now, and I don't have hundreds of roosters do I? Only one. I got Even this rooster, through sheer luck. While an eagle stole the neighbour's chicks, this one slipped from the eagle's hold and fell into my compound. I carefully looked after the chicken and brought it up."

During the last two decades the Tamil people have undergone numerous hardships and sufferings. Due to the closure of the A9, all the prices went up. The cost of shipment and fuel prices have all contributed to the increased prices.

I had a casual chat with a vegetable vendor, Agustin Amalarajan, who lives at No.384, Main Street, Jaffna.

"How much is a kilo of brinjal" I asked. "Two-hundred-and-fifty grams is available for Rs. 20," he said. "What 20 rupees?"... I questioned with great astonishment. Only a kilo of brinjals was available with him. I thought he increased the price since he was having a small amount. "What's the price of a kilo...?" I continued. "You are an educated man why are you asking me the calculations, a kilo is 70 rupees. Why has the price increased to this much? I asked amazed by what I was told.

"The kerosene prices increased and I can't afford to water the plants or add any fertilizers. So farmers have marked up the prices. Now is the Nallur Temple festival season, and there is a demand for more vegetables, this has also contributed to the escalation of the prices. I stand the whole day inside this small hut. If I could sell these vegetables before sunset, I could earn a few rupees to buy something when I go back home," he lamented.

I walked along the Main Street and came closer to a trishaw stand. Seeing all the drivers in a queue, I asked one of them why they were all lined up. "We can get the hires only in the order we wait. Those army soldiers stationed at the main road will not allow us, that's why we are waiting in this lane. Only one trishaw will be allowed to wait on the main road. Once the first trishaw gets a hire, the next one in order will move on to the main road," said trishaw driver, A.Ravi.

"Fuel prices are increasing, so we have increased the fares as well. Earlier we charged Rs 100 to go to the main road. Now we have to charge Rs.200, even this amount is only for

you. For other people we may charge upto Rs.225 or Rs.250. However we can't cope with the increasing cost of living. We don't know where all this will end up," added Ravi.

One of the beneficiaries of the Samurdhi scheme, sent a letter to the Jaffna Uthayan newspaper dated August 20, 2007 under anonymity. He sent this letter on behalf of the people of Pashayoor. An extract of the letter is as follows:

"We all are from a fishing community. We lost our livelihood after we were displaced and are dependant on Samurdhi assistance now. For a month, we are given only 4 kilos of rice, 3 kilos of flour, ¼ kilo of sugar and ¼ kilo of dhal. For a five member family these relief items won't last for more than three days. How can we manage the rest of the 27 days? Do we have to starve? Even to get this meagre relief, we have to set aside Rs 100/- monthly as savings."

"yes even the price of a fowl has increased now, and I don't have hundreds of roosters do I? Only one. I got even this rooster, through sheer luck. While an eagle stole the neighbour's chicks, this one slipped from the eagle's hold and fell into my compound. I carefully looked after the chicken and brought it up."

"Only 30% of the population in our village gets this Samurdhi assistance. Seventy percent receive relief from the fisheries scheme. A five member family gets 18 kilos of rice, 12 kilos of flour, three kilos sugar and two kilos of dhal. "While the prices of all the commodities are mounting, the Samurdhi assistance we are getting is inadequate.

Thus, we need to draw our savings. But we are told to wait. Even today, we have to pay Rs 100 to buy food for Rs 250/-" he said.

Pavement business picks up in Jaffna
The former Vice Chancellor, of the

Jaffna University in a recent article, published in Valampuri last month said pavement business was picking up in Jaffna. This is a significant change after the closure of the A9 route. Given below is an extract of that article

Since the closure of A9 supply route a new dimension Of business in Jaffna has emerged.

There has been a severe scarcity of food items and other essential commodities since August last year. However, pavement businesses have begun to thrive.

This can be witnessed when walking along the roadside from the entrance of the Jaffna College towards Hotel Rolex.

Soap, washing powder, shampoo, milk foods and supplementary foods are sold here. A large number of pavement stalls selling grapes around the Jaffna bus stand, have suddenly cropped up. We were unable to predict whether this kind of business would expand or fade out. Apart from the grape stalls, fancy items too are taking control of the small boutiques. Readymade garments for children and women, travelling bags, handbags and leather belts are sold along the roadside of Muneeswaran temple. At its front aluminum utensils, enamel plates and mugs are the other items being sold.

It is the young men in the area that are mostly engaged in this business as they have no other profitable jobs, currently available in town. Although women rule business in the markets it is hard to find a businesswoman along the pavements.

Fernado Sinnarasa a fisherman from Manadithivu now displaced in Jaffna shared his sorrowful story with us.

"I earned Rs 100 only today. How can I feed my four children with this little money? If I buy a loaf of bread for Rs 40, it would not be enough to buy anything else. We were able to fill our stomachs at least with bread and sambol. It's been a shock to us to hear of the increase in the price of bread.

The main food of the poor is bread. Now we can't afford to buy that either. The one and only hope we have now is God. We believe he is looking down on everything that happens. That's the only assurance we have," he said.

Sakkodai Arch Bishop, James Pathinathar reflects on the situation: "Prices are increasing overnight. The cost of living is going up. Daily income earners are among those who are severely affected. Every day many gather in front of the church to receive food. The number increases daily. Salaries should be increased, parallel to the cost of living. When the cost of living increases in Colombo, it increases several fold in our areas."



G. W. Somasiri

By D.P. Sumith

Due to the prices of goods and services increasing day by day, the common man is faced with innumerable difficulties limiting economic activities.

This affects those living in Colombo and its suburbs more than those living in rural village areas. How can those who reside in Colombo solely for the purposes of education or occupation bear this economic brunt?

Upali Pushpananda Perera, a Government clerk on being interviewed by GroundView said that they were helpless, although they receive a monthly salary and went on to relate his woes: "Some are of the opinion that the wages of government servants increase frequently and they face no problems; but this view is totally wrong. When we revert back twenty five years, the only factual increase the government servants got was the one given during the last few months of the government under President D.B. Wijetunga in 1994 which resulted in every government servant receiving an addition of something between Rs. 750/= to Rs.1000/= to his pay packet. However, this has not always been the case when the wages of government servants have been increased. Although the government makes announcements through the media that wages have been increased, the actual increase by these mathematical tabulations that gets added to our pay packet is minimal." For example, when the Government announces an increase of Rs. 1000/= (One Thousand) the Rs. 700/= (Seven Hundred) we get as cost of living is deducted straight-away from and the Rs. 1000/= (One Thousand) added which makes the actual increase only Rs. 300/= from which 6% - 7% is deducted for the widows and orphans fund which was not earlier deducted as it was an allowance and thus the actual increase boils down to a meagre Rs. 260/= (Two Hundred & Sixty). So although the Government makes a big noise about it, we the government servants only know what we really get."

He went on, "no sooner the Government announces a salary increase the traders increase the prices of goods and it glides on like a mathematical table". What we need is not a salary increase to tally with inflation, but to create a society wherein we could

Mr. Somasiri stressing further stated that it is with difficulty that he attends to the needs of the children, especially the buying of books, even though the children are provided with uniforms, how much more is there, he asked. The amount he earns, he said, is just enough to keep the family fed, but that too would not be there if he were to fall sick and be at home for a week.

Making ends meet

live with the least economic stress with our present salaries. There are goods which have increased twenty five fold from what they were one year ago. Have the wages been increased accordingly? What is necessary is an honest plan to control inflation.

No government according to Mr. Pushpananda Perera has a targeted plan to reduce the price of goods and that the ascertains cannot be done at once and has to be implemented over a period of five to ten years.

"I fall into difficulty month by month in order to fulfill my family needs. Bus fares, drugs and even a cup of tea have gone up in price unbearably. A part of the salaries we get is deducted for the loans we have taken and the balance we get which is very little is not sufficient for the upkeep of the family and thus we fall into debt". Then in order to settle that debt we get further into debt and ultimately end up by borrowing at high rates of interest which range around 15% monthly. On top of all this when an occasion such as a wedding, puberty ceremony or a funeral, or even other special occasions like school functions and get-togethers arise we get further and further into debt. "All government servants have taken loans and their balance wages are very little which prevents them from taking a bank loan as the banks do not lend to us due to our wages being small and thus we find it almost impossible to find ways to repay our debts".

Mr. Pushpananda Perera concluded by saying that it's better to stay at home without coming for work when you consider the expenses on bus fares, meals and for other needs. Giving her views to us next was Mrs. Dhammika Atapattu who is engaged in a medium scale enterprise of manufacturing fancy items using cane. "I manufacture items using cane and my parents too were engaged in this. We produce many items such as mats, bags, doormats, flower baskets and dun nets using cane and bulrush, and there was a great demand for these items around two years ago; as they were sold to tourist hotels and other private traders, however this industry has fallen into a deep abyss now and we find it difficult to carry on".

The above she attributed to the general prices of goods in the country having risen to soaring heights as never before, and the people being deprived of any excess money to buy items such as these, as these items do

not belong to the essential category and are only purchased when there is some excess money in hand. As such the sales she says have dropped by about 75% from what it was.

Going on she says "on the other hand the cost of transport, paints, coir rope and other necessities connected with the production of these items have increased threefold and thus costs of production have naturally risen. Earlier, we used to purchase the cane and reed on a large scale from those who bring them to us and pay cash, and as our purchases are on a large scale we get these items at discounted rates; however it is not so now and we buy only our day to day requirements from them, as we are not in a position to produce a lot of items and stock them for long periods thus getting no value for our investment. This is a loss for our suppliers too. "I have 4 people from the village working for me and paying them their wages is also a problem now. We have reduced our production drastically and our income has gone down.

According to Mrs. Dhammika Atapattu, the tourist hotels do not buy their goods any longer as their turnovers too have dropped; and even private traders around the hotels are faced with the same dilemma. Even if a known person comes to purchase their goods, credit terms are requested she says. How can people



I would like to have it, but at what price?

buy things like these when they cannot even afford to buy the day to day essential things now? In her own words "not only the generation after us, but we too are now compelled to change course and have to give up the industry". G.W. Somasiri a carpenter when questioned how he is coping with this existing economic situation had this to say.

"Those days I could not cope with the work I had and worked throughout the week; as we had plenty of orders for doors, window frames and other household items such as book racks, cupboards etc. but now there are only a few orders and hardly enough work to last even 4 days of the week.

"I am a father of 3 children, but it was not a problem to maintain them at that time. But I feel the strain now, as my income has dropped drastically due to people not having money to spend on the type of items I manufacture".

Mr. Somasiri stressing further stated that it is with difficulty that he attends to the needs of the children, especially the buying of books, even though the children are provided with uniforms, how much more is there, he asked. The amount he earns, he said, is just enough to keep the family fed, but that too would not be there if he were to fall sick and be at home for a week.

Another reason for the shortage of work is the use of alternatives to wood in the construction of houses in comparison to days gone-by when wood was excessively in use for this purpose. This he indicated was due to the higher cost of wood in comparison to the alternatives.

"By all this we are deprived of a permanent income, and thus when we are in need of money, we take loans, but here too we are prevented from obtaining bank loans, as we are self employed and find it difficult to prove our income on a piece of paper, which is essential for a bank." Moving away from us in a thoughtful mood he said "what we are doing



Upali Perera

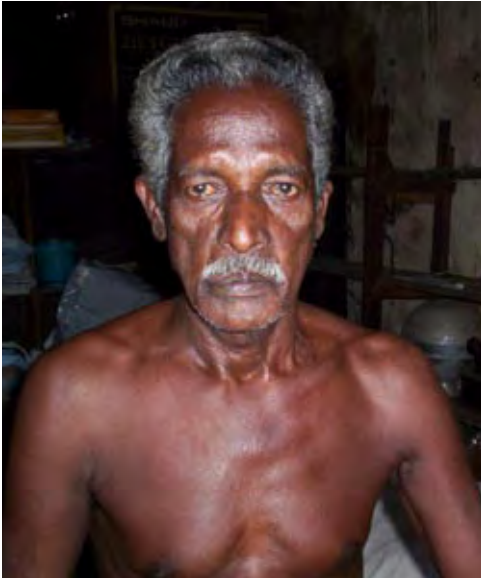
now is living for the day and that too on half filled stomachs and hoping for a better tomorrow". Mrs. Shantha Kapurubandara, a housewife on meeting us commented in this manner. "Today living is like engaging in war. The price of goods has gone sky high and continues to increase. The money spent today is not enough to buy the same quantity of goods tomorrow" Now it is not possible to give more than one feed of milk a day to a baby who was given 4 such feeds, as the price of milk powder has escalated and one will not be able to manage with one packet for a week if that is done. Due to the prices of rice, vegetables and such items increasing daily, we may have to manage on one meal for a day, in comparison to the two we now enjoy. Bread is also impossible to eat".

"Although the prices of goods have increased, our salaries remain the same and as such we are unable to bear these expenses. As such we are now compelled to sacrifice certain things in order to carry out our daily existence. These things include the trips we go on school holidays and even the dinners out we have occasionally, as if we are to eke out an existence we have to forego these things as our finances do not permit it."

"Besides my husband is the only person working in the family and his earnings have to support 4 of us. We hardly buy any new clothes for our children and buy fruits only once a week. Even when I buy biscuits for my children, I distribute it myself or they will eat it all at once and we cannot afford that. We have to forego such things to exist even though it is hurting us a lot when considering the children."

She went on to say "the Government says that this is due to inflation and this of course we do not know or care, but we are unable to exist under the present circumstances. They must either reduce the prices or get involved in controlling them, or else we may also have to get on to the roads in protest or go in protest rallies to the houses of ministers".

She reiterated saying that they used to go on trips to Nuwara Eliya, Galle, Kandy etc., during the days gone by to show the country to the children, but now going to Galle Face was also a big problem. The expenses they have to incur on a trip or outing will cost a lot and if it is to be done, she indicated that starving for a least a week cannot be avoided.



Kanawadipullei Kandaiya

Sixty years old, Kanawadipullei Kandaiya remembers fifty years of economic and social history of Trincomalee clearly. His father was a railway employee and he still has pleasant memories of spending good times with other Sinhala and Tamil families in Kinniya.

Kandaiya had two brothers and two sisters. Small Sinhalese children living close to his small house at Kutikarawasala village in Kinniya came to play with him and they too went to other Sinhala, Tamil and Muslim houses to play. They dined together-drunk together, in the same way their elders used to do.

His family communicated in Sinhala with Sinhalese children and in Tamil with other Tamil children. He remembers various friends including 'Kiri Mahattaya', 'Kumara' and 'Sudu Malli' but said none of them was seen today. It is not a secret that various conflicts in an aggressive environment prevailing for more than five decades separated friends from each other.

Kandaiya went to school up to Grade Four and thus had to take up manual odd jobs to earn a living. His opinion was that it was not a big challenge to make his young days a prosperous one in the 1960's.

"There was no big difference whether you were employed in the public sector or not at that time. I earned Rs. 6 a day by doing odd jobs. I could also save Rs 3 from that Rs 6 after spending for food and on all other consumer items," he said.

According to Kandaiya, a measure of rice was only 35 cents and a pound of fish was only 15 cents. He also remembers eating buns for only five cents. Since there was no need of setting tough goals in life in that simple society, he too entered into married life as any other youth of his generation at the age of 26. He tied the knot with a Tamil girl named Arasamma who also lived in the same area.

The early stage of his married life was simple and since Kandaiya worked wholeheartedly, most people offered him jobs for daily payment. These jobs varied from harvesting paddy, cultivation and working in rice mills. There was not a single day without any work but there was no major damage if one refrained from work for a day.

"There was no need to work every day. Even though I did odd jobs, I could also save some money. Only those who were addicted to alcohol needed more money to spend.

I do not drink. Therefore, when I earned Rs. 6 I could always save Rs. 3. We did not have a banking system at that time. We hid whatever money we saved in a corner of the house", he said walking down memory lane.

Kandaiya explained that even in the 1970's Trincomalee was a haven for all communities. "We used to go to Sinhalese weddings & they used to come for our functions. It was Sinhalese people who blessed me most when I got married."

According to Kandaiya, life in that decade was a simple one.

"Most of the time we went on foot. We used carts for transportation only if it was a difficult journey. Thus, we did not have a habit of earning money to maintain vehicles, as some people do today. No one spent money on styling, shampooing or oiling hair at that time. Only when you attended a wedding you

IN RETROSPECT

Recorded by:
Chethana Bandara Wijekoon.

spent extra money", he added.

With the dawn of 1980 when prices started increasing Kandaiya too experienced the burden of the cost of living. Labour charges for odd jobs too went up.

At one point in the 1980's, daily charges were Rs. 25. By the 1990's, it went up to Rs. 250. Fifteen years ago, Kandaiya felt that he no longer could save what he earned after feeding four hungry mouths.

On the other hand limiting travelling was another challenge. By the end of the 1980's, visiting Sinhala families came to a complete standstill. Although both parties wanted to share the same goodwill as before, fear of putting the other party's life at risk by doing so prevented them from visiting each other. There were times of one suspected a member of his own community.

As a result, Kandaiya planned to start a new industry or a business.

On an auspicious day in 1990, he opened his new laundry after receiving blessing at Koneswar Kovil. However, from that day onwards he could not understand whether his business was developing or collapsing. He cannot even remember whether it was opened for more days or closed more.

Finding a living everyday, protecting his two children as well as protecting the laundry shop were the challenges Kandaiya faced for sixteen years.

He has to pay Rs. 4500 monthly for that shop in a Central Rood in Trincomalee. In order to do that he has to reserve Rs. 150 from his daily income. His daily income barely goes beyond Rs. 300 now.

He clearly knows his income will definitely go up if fishermen came back with a good catch of fish.

Due to the security situation in Trincomalee, fishing has been limited from morning to evening thus limiting everybody's income.

On the other hand, people come to town only till 2p.m. imposing various restrictions in Kandaiya's life too.

He has to protect his 27 year old son and 26 year old daughter from being victims of youth unrest. They are looking forward to finding a small job or a way of income after completing their education. That hope now seems distant due to the war situation.

Kandaiya says that life has become more complicated but there are no job opportunities.

"Today life is very difficult. Everything has a price. If one falls ill it takes at least Rs. 300 to go the town in a three-wheeler. There are four members in our family and we need 500g of rice for one meal. Apart from that I need about Rs. 500 a day to fulfil other various small. Because, a coconut is Rs. 20, a soap bar is more than Rs 20, and a kilo of chillies is more than Rs. 200. Even if I earned Rs. 600 a day by doing odd jobs it won't be enough to meet our daily needs", Kandaiya explained.

When asked how he meets his demands worth more than Rs. 500 by earning less than Rs. 400 a day, Kandaiya was embarrassed to confess that they sacrifice one or two meals a day.

What alternative do they have other than to sacrifice their meals to live?

Since Trincomalee is now out of terrorist threats, it has started becoming populating again. Kandaiya is hopeful that there will be a better income in par with the increasing expenditure.



Liyanage Patrick

Ambalangoda Liyanage Patrick came to Trincomalee, from Gandara in 1947 to engage in the fishing industry.

He remembers fishing as a pleasant livelihood. Fishing in canoes and sailing boats he learnt as a youth to fish by sailing according to the wind, going to sea in the morning and returning in the evening.

Trincomalee was a beautiful city in 1950. The majority were Sinhalese and most of them came to the area from down South. Patrick said it was a nightmarish journey when he came from Gandara to Trincomalee fighting with the rough seas to save his life. He recalls how he held onto a wrecked sailing boat at Gandara and floated to Trincomalee.

However fear did not keep him from going to sea. In the past going to sea for fishing did not involve diesel, petrol or any other expenditure. A lantern was lit using kerosene, which only cost a few cents.

One brought more than 10 kilos of fish home from sea that was priced at more than Rs 50 - Rs 60. It was a huge income at that time. There was no other livelihood where you could earn that much money.

In 1955 there were only two jewellery shops in Trincomalee town. A sovereign was Rs. 83 only.

"Fishing is a profitable job even today but you have to use canoes and sailing boats. What can you save by using a litre of petrol for Rs. 150? It is profitable only for trawlers. Those who go fishing on engine boats can earn nothing and it is a futile act," Patrick argued.

According to Patrick, you get better fish by harvesting early in the morning. "Going to sea at 4 in the morning and returning at 6pm is the most profitable time as fish get attracted to the lamplight in the dark. The harvest is very low in August. Now you have to go to sea by 6 a.m and to return by 4 p.m. due to security reasons. The income of everyone has dropped," he said.

Patrick married Danawathie Hewawitharana in 1950. She too was from down South and they built a house close to the town. Premajyantha, Ravindra, Shirani, Shiromi and Samantha joined Patrick's family from 1960 onwards.

"We felt no difference as Tamil or Sinhalese. We went to sea together and dined together. It was a memorable & beautiful era in my life," Patrick said revealing his memories about society then.

You could get one hopper for a few cents. If you had 50-60 cents at that time you could have hoppers enough

THREE SRI LANKANS REFLECT ON HOW THINGS WERE AND THE TRANQUILITY THEY MISS

to cover one meal. We earned so much and ate well. We had money in hand. We could save at least Rs. 50 a day. It was only after the 1960's and 1970's that prices started increasing. Today it has come to an unbearable level. You keep on spending without being able to save a rupee. You have water bills, electricity bills and endless taxes. Everything from a box of matches to food has been increased," he complained.

Patrick stopped fishing as some 10 years ago. His children too have grown up now.

Today he maintains a grocery at Central Road in Trincomalee with his children. Businesses, like fishing are not profitable as people do not have money, and so Patrick as well as his sons believe the maintenance of a grocery store alone is an achievement.

He protected his sons from the civil insurrection in 1970. They were able to survive terrorist threats after 1983 and the insurgency in 1989.

They were able to bear various difficulties and Patrick was able to protect his children as well as grandchildren. However, Patrick says it is much more difficult to face life now than in the past.

"Those days it only took Rs. 9.50 to go to Matara. Today it takes Rs. 460 to go to Matara and that is only if you travel using one bus. But I can't go alone my wife wants to go with me. I have to take my children and their wives as well as my grandchildren too. They have to know their relatives. But it takes at least Rs. 20,000 to go on one trip and another Rs. 20,000 to buy the necessary clothes. What has happened to this country?" laments Patrick.



M.H.M.A. Rasmi

M.H.M.A. Rasmi is an attorney-at-law who is presently serving as the Chairman of the Colombo District Chapter of the Society for the Upliftment of Muslim Education. Here he reminisces about growing up in a trouble free Sri Lanka and the insurmountable challenges the country faces today.

I had a very pleasant childhood where a person's race, be he Sinhalese, Tamil or Muslim, was of little or no consequence – what really mattered was co-existence. I remember the simple and trouble free lives that the Sinhalese, Tamil and Muslim people led. I can still recall the taste of oil cakes, cookies and milk rice, the traditional sweetmeats of the Sinhala-Tamil New Year which were so often found even in Muslim homes during the season.

I cannot deny that we had financial difficulties, but the co-operative movement which had spread to ev-

ery nook and corner of the country was very effective and helped elevate our situation to a great degree. Even with the availability of this movement however, I recall that the more affluent folk in the neighbourhood did not purchase their requirements from the co-op store, opting instead to purchase the more expensive goods in higher priced stores which offered a more comfortable shopping experience.

Then came the 1956 Revolution which turned our society topsy-turvy and transformed our simple lives. Prior to 1956, there were private schools and government schools, with the private schools offering better facilities than the government schools. The nationalization of schools in 1962 changed all that. The nationalized schools progressed rapidly while those that remained in private hands lagged behind. Children attending private schools were proficient in English, whereas students in government schools studied both English and Sinhala. This resulted in a marked change. Those in government schools progressed, joined the public service and served their country, while those in private schools lagged behind, having no option other than to migrate, as the good jobs were all being snapped up by those who had been educated in government schools. Those in high government positions today are those who progressed after the 1956 revolution. They are referred to as the children of '56.

The decision in 1956 to make Sinhala the Official Language however saw a change in the tide of things and marked the beginning of the country's troubles. The three communities began to drift apart, with the Tamils and to a large majority the Muslims being at a natural disadvantage in becoming proficient in the Sinhala language, and thereby beginning to develop a distinct suspicion of the Sinhalese.

The 1970s also brought vast changes to the country – pushing the 1956 revolution further forward. The economic needs of people were transformed, as new trends replaced the old. The efforts of the 'left' leaders to educate people of these changes bore little fruit, mainly as their spiritual and intellectual development was stunted as a result of new social and economic trends.

Party politics took over from this point onwards. Not only were people drifting apart socially, but at the same time they were becoming victims of economic opportunism. One section of society used science and technology to strengthen themselves – resulting in the population gradually migrating to increasingly urbanized cities.

The reasons for this migration were many. It was not only a means of economic advancement but also of securing their future. Moving to the city meant government jobs in high positions, better educational opportunities for their children and also opened the doors to foreign migration.

The lesser educated and lesser ambitious preferred to stay behind in their villages – naively believing that the village economies were adequate to sustain them, whereas the reality was that they did not have the strength to sustain a quick change of circumstances. In the end it was the city that triumphed.

Those who migrated to the cities categorized themselves as Sinhalese, Tamils and Muslims. The new education policy of the People's Front of 1976 in the form of standardization further polarised society. The standardization policy was viewed by many to be a means of reducing the university intake of Tamils and Muslims from the North and the East. This was a crime – a venture that no government should have undertaken. This only resulted in the richer people of the North sending their children abroad for education, while the poor farmer's son stayed back at home. The

educated youth among them came to view society and the Government with a sense of suspicion – they looked for alternatives to elevate their plight. They became inward looking – ceasing to look at the country as a whole – and losing their ability to maintain a larger and more forward looking perspective. The changing policies of respective governments had left them with little to rely on.

In the 1970s local industrialists could function with some self-confidence – local raw materials began to feed local industry and the country progressed technologically – at the same time however we lacked the economic management skills to support this progression – a result of mixing politics with management.

The 1980's however saw a huge transformation in our society. The opening of the economy in 1977 was the death knell for several industries. Man's exploitation of man saw new heights. Local industries could not face the competition from their foreign counterparts, which resulted in several local industries being forced to close doors and only 'foreignness' receiving state patronage.

Consumer goods coming from Jaffna to Colombo and those being transported from Colombo to Jaffna faced fresh barriers, with the only commodities seeming to effortlessly cross borders being multi-barrels. War is now the only commodity that is traded between the North and the South. Terrorism has engulfed the country, with the once fertile farms in the North now being used as training fields for terrorists and once productive factories being converted to bunkers.

The 1972 Constitution created rather than solved problems as did the 1978 Constitution. While the 1972 Constitution created problems by creating disadvantages for the minorities, the 1978 Constitution did nothing to eliminate this problem. Nor did they provide for stable governments. That all governments after 1974 have been unstable is an undeniable fact. Unstable governments result in unstable economies, with low growth rates, high unemployment, increased imports, a weakening rupee and increasing prices. The people become poorer, more money is printed to combat this problem which only leads to rising inflation.

Each successive government tries to give relief by way of subsidies. This will not work. You can't eliminate hunger by giving a man a fish – he must be taught to fish – that is the only way – and that is how advanced countries have progressed to where they are today. What we do is we subsidize laziness. You just can't progress that way.

The prices of essentials like oil, and bus fares among others are increased four times a month. This is a result of the war, which in turn is a result of a lack of solid and sensible economic management. But we take cover behind the war and use it as an excuse for all our ills – resulting in nothing more than a snowballing of the situation.

All communities, the Sinhalese, Tamils and Muslims have lost their intelligentsia to the war. We have lost large numbers of youth who could have otherwise contributed towards the development of the country. A vast amount of property which could have been profitably used for economic growth has been destroyed. The agro-economy of the North and the East has been laid waste. This is what I have been witness to in my lifetime. We are now faced with the problem of salvaging what is left of the country.

The country can progress economically only if the war is stopped. The aspirations of the Tamils must be consciously addressed. We cannot progress as a country if we cannot progress economically. That is an undisputed fact.



Three square meals slipping from their reach

Nobody seems to be exempt from the hard times that have befallen the country. Everywhere you turn, one sees stories of hardship, sorrow and utter despair. While it is undeniable that economies invariably go through ups and downs, one cannot shy away from the fact that Sri Lanka's economy and its people along with it are limping towards impending doom, towards total economic collapse, similar to the fates of failed nations.

By Mangalanath Liyanaratchi – Trincomalee

Many Sri Lankans today have one question on their minds and it has nothing to do with the ongoing civil conflict or the political issues. The question is not even the pressing social issues of finding better jobs, good schools for children, or even planning for the future. Instead it is simply one of how one survive.

This situation is more apparent in Trincomalee, a city where people have for years faced harsher living conditions than those living in other parts of the country, their economic and social hardships being further compounded by the real very threat of sudden and brutal injury or death caused by the incessant war raging in their very backyards on the one hand, and natural disasters of catastrophic proportions on the other.

Just when things could not seem to get any worse for them, spiraling inflation and the cost of living have now focused all of their energies into nothing

but basic survival – a survival so basic, that even three square meals a day are slowly slipping out of their reach.

Three-wheeler drivers are among the hapless daily wage earners who are buckling under the cost of living. "When the price of fuel increases – we have to increase our fares. When this happens more people opt to walk short or even longer distances, saving the Rs. 50 or Rs. 80 they would normally pay us," lamented Thushara Nixon, a three-wheel driver from China Bay.

He pointed out that following the 2002 ceasefire, with the attending increase in tourist arrivals they were able to earn as much as Rs. 4,000 a day, enabling many of them to buy a second three-wheeler, construct homes and in general raise their standards of living. Even after the initial boom following the ceasefire, they were able to earn between Rs. 1,000 and Rs. 1,500 a day, says Nishantha, but today, they are hard put to even earn Rs. 100 a day.

They find it difficult to pay the lease on the vehicle, often pawning jewellery which they then cannot afford to redeem. "Customers often haggle with us over the cost of the fare and when we cannot lower our fares any more they decide to walk. The roads are in a dilapidated state and the tyres get wasted in no time, but with the cost of tyres having risen so drastically, we cannot afford to replace them," he continued.

Many others like Nishantha began building their homes when they imagined that only good times were ahead. These projects, began when a bag of cement cost Rs. 350 and masons charged Rs. 500. However these plans have now been abandoned since a bag of cement costs Rs. 650 and masons charge Rs. 1,200 as daily wages.

A common complaint that was echoed was that while earlier people could stretch out their salaries to last the whole month, today that is no longer possible, as in the case of R. Premajayantha, an em-

ployee of the IOC Company in Trincomalee. "Prices of essential items are increasing almost daily. A packet of milk which was just Rs. 165 last month has gone up to Rs. 200 this month. I need 10 packets of milk a month for my house. Although I work in Trincomalee my home is in Kandy. With the ever increasing bus fares my monthly bus fare alone is Rs. 3000.

"Earlier our salaries were increased with every point increase in the cost of living index. Now it is revised only once every four months – whereas it should be revised every week considering the present situation. With all these price increases my salary lasts only half the month now. Yet, how can I not give my children milk and how can I not go home?" he laments.

Premajayantha and others like him complain that since there is no corresponding wage increase to keep pace with the racing rate of inflation and skyrocketing cost of essential items, they have to resort

to borrowing money. Due to inflation, interest rates on borrowings are also extremely high, leading to a vicious cycle, thrusting middle income earning families ever deeper into the clutches of debt. But as they point out, they continue to borrow money because they can't let their families starve.

The common consensus is that traders being the middlemen in a market economy are most likely to profit from such a scenario. The traders however are quick to dispel any such illusions.

Nishantha Hewamanna, a petty trader at the fourth mile post in Trincomalee pointed out that once he pays for transport costs and his workers' wages, he is left with hardly any profit. "It's true that price increases don't stop people from eating – but it definitely reduces the quantity of food they purchase," he told GroundView.

"People who bought half a kilo of vegetables earlier now buy only a

quarter kilo. It's true that vegetable prices are subject to fluctuations – especially with good harvests or increased imports of vegetables like big onions and so on – but the price increases far out run the decreases,” he says.

Many vegetable traders buy their stocks from mass wholesale locations such as Dambulla. When fuel costs increase, transporters charge by the bag when it comes to transporting the vegetables to other parts of the country. With the current security situation, bags are unloaded several times on the way to their destination so that lorries could be checked, and labourers have to be paid for this task every time. Traders have no choice but to pass on these accumulated costs to consumers by charging more for the vegetables.

“With the increased costs, consumers too take extra care over their purchases and choose every item of vegetable very carefully. This results in waste as they do not buy vegetables which are even slightly bruised, and a portion of vegetables always perish during transportation, especially due to repeated loading and unloading due to security checks, and traders have to bear that cost as well, they complain. Unlike other goods you can't return unsold vegetables. Our customers have now reduced purchasing the more expensive items such as carrots, beans, leeks, and beetroot. Whereas earlier people ate at least three vegetables for a meal, they can now afford to eat only one.”

“With all these factors, our incomes have hit rock bottom. Our salaries, transport costs, losses from waste, electricity bills, shop rent have all increased, reducing our profits. But in spite of all these difficulties, what can we do other than to continue buying vegetables, even after raising loans,” says Nishantha.

Trincomalee being a



coastal village, fishing is the main source of livelihood for the people, both directly and indirectly. With the rising cost of living and a number of other contributing factors, however, consuming fish has become a luxury many people choose to go without.

Due to the current security considerations, fishing is restricted in Trincomalee, resulting in an increase in prices. Whereas earlier a kilo of fish cost Rs. 180 now just half a kilo is Rs. 150 says Koneshamani Suresh Kumar, a fish vendor from Janasarigama in Trincomalee. “People now prefer to buy a kilo of chicken instead of half a kilo of fish. Even if they do buy fish the most they will buy is 500 gms of the cheapest variety. I find it extremely difficult to dispose of my stocks even by noon, let alone make a decent profit,” she told GroundView.

Among the other affected industries are the jewellery and pawn brokering industries, another indicator of the prevailing hard times. Since fishing is a major source of income in Trincomalee, when fishermen make money during the peak season they tend to invest it in gold jewellery. Y.M. Asar of Usuf Jewellery at Beach Road how-

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ever points out that present sales indicate how low incomes have fallen. “My income has fallen by four fold. I had to discontinue two of my employees as a result – what can I do with employees without business,” he said.

He pointed out that many jewellers and pawn brokers made good profits through the pawning business. But now even though people were pawning their jewellery instead of buying any, they preferred to pawn it to the banks, cutting off even that source of income to local traders.

“Public servants purchase jewellery very rarely now – most resort to ‘cheetus’ to purchase their needs in jewellery. Some time ago our shops were full of customers – now they are empty. This shows that even though gold prices have not risen much, people don't have any money to meet their daily needs, let alone luxuries. First food and clothes – only then jewelry they say,” Mr. Asar said.

Nobody seems to be exempt from the hard times that have befallen the country. Everywhere you turn, one sees a story of hardship, sorrow and utter despair. While it is undeniable that economies invariably go through ups and downs, one cannot shy away from the fact that Sri Lanka's economy and its people along with it are limping towards impending doom, towards total economic collapse, similar to the fates of failed nations.

Indeed, what hope can there be when a father cannot shut out the cries of his hungry child?

Y.S.M.Ranatunga, a popular Ayurvedic physician of the area, came to Trincomalee in 1951. Here he reminisces about life in the good old days and compares it to the hardships of today.

“When I came to live in Trincomalee at a very young age, life here was heavenly. Trincomalee was such a beautiful city – unspoiled beaches, lovely climate, friendly people – life was good. There was not even a hint of any conflict.”

“When I became a physician in 1969, I opted to go in to private practice instead of joining the government service as we could earn much more outside – as much as Rs. 40 to Rs. 50 a day, a very big sum in those days, especially when you consider the cost of living those days. It cost just Rs. 3.75 to travel from Kandy to Trincomalee. A cake of soap was 10 cents, sugar was 20 cents, a mea-

sure of rice was 40 cents and a kilo of fish was Rs 3. I remember a big har-tal when the price of rice was increased in the early 1950's, but this was an extremely rare occurrence.”

“Even though there was a scarcity of goods during Mrs. Bandaranaike's time, the prices of goods were high, but with so many people owning large extents of land they countered this rise in costs by growing certain fruits and vegetables in their gardens. People also did not have to cope with so many extra expenses like they do today. If at all, they would take an occasional drink and socialize or visit the cinema.”

“In 1977, President Jayawardene's open economy brought with it a flood of goods into the country. Industries abounded across the country, employment opportunities were plentiful and people had money in their pockets.”

“By the time the 1990's rolled around, however, the situation began to decline dramatically. Bus fares, electricity and water bills have gone up, and the war was beginning to take its toll on the economy. By 2000 the prices of goods shot up at an unbelievable rate. Now ordinary people find their salaries inadequate, especially as wages are static but the prices of essential items are increased almost daily. With no control over imports, even something as simple as a bucket is imported, and several local industries have collapsed as a result.”

The sugar factory at Kantalai has closed down, the rice mills have folded up, potatoes are imported from India, milk powder is imported from New Zealand, fish is imported even though we are an island nation.

It is no longer shortfall items which are imported into the country but even products which we can easily produce in our own country he said.

Small is affordable: The sachet syndrome



Manufacturers have responded to the demand of the average consumer. Milk powder and other products are now available in sachets.



Ajith Priyantha who is the Assistant Secretary of the Polonnaruwa Chamber of Commerce, holds a degree in management. After graduating from the Rajarata University he did not seek a government job. Instead he launched out on his own, setting up a small guesthouse cum restaurant, called the Midland Rest.

He described the sorry plight of the traders and the consumers: "The people do not have money to spend as their main concern is to feed their families. Those who have a regular income spend very sparingly." "I run a guest house and a restaurant. I cannot cater to the needs of the consumer the way the other traders do. The consumer has got into the sachet syndrome. Every thing has to come in small quantities like in a sachet. For instance the milk powder is repacked in small sachets. A cool drink is either what is called a buddy or is sold by the glass. Consumer items are generally sold in 100 gram packs. Nobody

steps into a shop unless it is absolutely necessary."

"But I cannot split a packet of lunch in half, nor can I partition the rooms since they are invariably occupied. The rent is high and we have to pay various kinds of taxes that are mind boggling. The cost of electricity and water has increased. The disparity between the income generated and the ever escalating cost of living has really put us in a quandary. The people who come to stay in my guesthouse are mostly sales representatives and agents. They come with prior bookings and they can afford to pay. They do not stay for long as they did in the past. They no longer request additional services like special dishes or room service. If people do not have the money or the inclination to spend how can I manage my business?" he said.

"Perhaps I missed that lesson at the Rajarata University on how to manage a business in a failed economy," he said shrugging his shoulders in a pensive mood and staring blankly ahead.

By Manula

Financial Performance of Selected Public Enterprises

The Ceylon Electricity Board (CEB) and Ceylon Petroleum Corporation (CPC) continued to be the to public enterprises which are still posing a significant burden on government fiscal operations. In 2006, the financial position did not show a noteworthy improvement.

Despite the increase in low cost hydro power generation and tariff adjustments in 2006, the financial position of the CEB deteriorated due to a number of

factors. These include the inflexible pricing policy, increased fuel cost, delays in implementation of planned reforms in the electricity sector, delays in implementing of planned low cost large scale power projects and the delay in addressing the high system losses. The continuation of operating losses of CEB will lead to increase its liabilities to the banking system leading to adverse monetary implications. It has also led to adverse fiscal implications as the govern-

ment is servicing CBS's foreign debt.

Several factors were attributed to the less favorable financial position of CPC in 2006. These include the delays in price adjustments during July and August and net loss of oil refinery during the latter part of the year. However, CPC continued to improve its financial management and internal controls while importing refined products on a more competitive basis and negotiating more favorable terms

on supplier's credit. Furthermore, it also entered in to hedging part of its oil purchases for the first time in early 2007 with the view of maintaining stable retail prices and fuel cards were introduced to assure the market share. Though the credit facility obtained under the Indian line of credit in 2005 shifted part of the CPC's short term liabilities to medium to long term liabilities, high short term liabilities continued to be a concern.