

Dr Karunasena Kodituwakku, former parliamentarian and cabinet minister and presently UNP organizer for Kolonnawa speaks to **C.A.Chandraprema** of the economic woes besetting the Rajapakse regime and the merits of the non-inflationary policy followed by the UNP.

way of solving the problem of inflation is increasing income. But that increased income has to come from productive employment. If the government creates 100,000 more jobs and prints money to pay their salaries, that is not a solution to the cost of living problem. But if those people can be sent abroad to foreign labour markets or are employed here in the outsourcing industry, then foreign exchange would come in as earnings. But what is now happening is that they are creating income without any real output. So finally, the demand increases for the same level of supply. When demand increases in a situation where the supply of goods and services is static

The UNP would not have been able to reduce world food prices or fuel prices, but we would have been able to manage it. It is true that world market prices have gone up and may increase even further. The Economist predicts that by 2010, a barrel of crude oil would be around 200 Dollars. Despite all this, the govt has not changed the tax on a litre of petrol. When the UNP was in power, the tax was 15%. At that time 15% of 50 Rupees was Rs 7.50. But now, with the price of petrol at Rs 127, about 40 Rupees of that is government tax. Because of the government's inability to manage the economy, the entire country is suffering.

Q. Lets go back to that

world market price for a metric tonne of rice is 1000 Dollars. To produce one metric tonne of rice you need one and a half metric tones of paddy. If the farmer has to pay world market prices for his inputs, he should be able to get the world market price for his output as well. Then the problems of the consumers come in. This is where the government has to step in. If prices are going down then some subsidies have to be given. If paddy is being sold at premium prices, then a cess should be charged and some fund has to be set up to protect the consumer, but those things are completely neglected now.

Q. In the past few years, there has been a boom in

What is done today won't be applicable after an year. So there has to be continuous analysis. The paddy sector comprises of a huge body of small producers, who are disorganized and unable to take steps to safeguard their interests effectively. The proper incentives to help these small timers should be available. Everybody is now talking about food security. With the increase of the population, and incomes, demand is rising. So the demand for food will keep increasing for the next five to ten years. We should be able to grow most of our requirements in this country, or we should have the capacity to import what we need. Increasing the yields will be one option. If

rulers simply say, "We're going to spend only what we have and nothing more is going to happen", what kind of an economic policy is that?. We don't need leaders to do that - a government clerk will do just as well.

A. It's good that you asked that question, because that gives me an opportunity to clear up the misinterpretation of that circular. The instructions given out were not to recruit anybody without the permission of the Treasury. The objective was to curtail the recruitment of unproductive people. However, we continuously recruited teachers. We had a policy of recruiting 1200 graduate teachers every year. Recruitment to the armed forces and the police and health professionals like doctors and nurses, continued. The reason why recruitment in some other areas was restricted was because when we came into power in 2001, the overdraft facility from the Bank of Ceylon and the People's Bank, used by the treasury to pay salaries was in the range of 55 billion Rupees. If that continued both the state owned banks would have collapsed by this time. Recruiting people for the sake of doing so will not really help anybody. Those graduates who were recruited a couple of years ago have now taken to the streets again because they have no job to do, no salary scales, no pathway for promotion. In 2002, we slowed down state sector recruitment until the economic situation improved. Even president Jayawardene didn't give jobs to everybody the moment he came into power. Instead, he distributed job bank forms. People were given jobs within two to three years. In the meantime, he opened up the economy, simplified the procedure of obtaining a passport and allowed people to seek employment overseas. The UNP has had good policies and right throughout, has done the correct thing. Recently on the Rathu Ira programme on Swarnavahini, the prime minister posed the question whether this country had even a rubber balloon producing industry before 1956. The fact of the matter is that the paper industry, the cement industry, chemicals industry and even the sugar industry were in fact started by the UNP governments before 1956. The UNP government of 2001-2004 ruled only for a very short period. But even ordinary people say that they were better off during that period. For the last eighteen months, the cost of living has been going up. Now, things seem beyond our control. I don't think the government can control this inflation, and we seem to be going the way of Latin America in the 1980s.

"Govt. has lost control"

- Dr Karunasena Kodituwakku

Q. The cost of living is the main economic issue being discussed now. Had the UNP been in power, do you think that things would be any different to what they are now?

A. Definitely, because the UNP would have been able to manage the inflation. It is true that in the past three months, even other countries have been experiencing high inflation, but it has still not exceeded 10%. In Sri Lanka inflation is partly due to the global oil and food prices, but the 30% inflation rate is mainly due to the mismanagement of the monetary policy. The growth rate now is almost 7% now, but this growth is mainly due to the service sector. The government has artificially created more than two to three hundred thousand jobs. This does not mean that we are objecting to the creation of employment - which is necessary. But the employment created has to be productive employment.

Q. The last time the UNP was in power, I can distinctly remember the then prime minister saying that there was no way to reduce the cost of living and that all that can be done is to increase the incomes of the people. This shows that the UNP was not in control of the situation either.

A. That's correct. One

or declining, then the prices of things will go up. Recently, I was in Dehiattakandiya where people were settled under the Mahaweli programme. Except for paddy, there is no market for their other produce. In Kudagama in Maduruoya, I was taken to a cadjan hut which stored more than 500 big pumpkins. The farmers were saying that they can't sell these for even Rs 10/= per kilo. On our way back we purchased some vegetables in Dambulla where a kilo of pumpkin was Rs 50/=. At the initial stages of the Mahaweli project, the dams were built, the towns were built the settlements were done and an entity called the Mahaweli Economic Agency was created to look after the other needs of the settlers. But those things have been completely abandoned now. After 1977, when the paddy marketing board was in existence, - we didn't abolish it was abolished by the Chandrika government - the UNP government was able to have the PMB price as the floor price and allow rice millers to buy paddy and sell the final product. Because the marketing machinery is in place, there is a demand for paddy. But in the case of vegetables and other food stuffs, the same marketing mechanisms don't exist. The management of the economy is not a simple thing and should not be taken lightly. But this job has not been done properly by the present government.

issue of creating employment. Your point was that money was being pumped in to maintain unproductive people. The dole in western countries also supports unproductive people, but that does infuse something into the economy, because they do their shopping at the same supermarkets that the employed people go to...

A. Demand is a very important factor in a market economy. Demand also has to keep rising every year at least by two to three percent in order to be an incentive for the producer. Even Keynes said that the best tool to manage the economy is 'effective demand'. It is the role of the government to strengthen effective demand. Keynes gave that celebrated example where one set of people are used to dig a trench and another set of people are used to fill it and they are all paid for this useless labour in order to keep demand up in the economy. Giving a subsidy or giving a dole is a demand side intervention. However, except for slogans, there is very little being done about the supply side or production. Paddy production had declined over the past few years. So has coconut. Now the price of paddy is Rs 30/= per kilo. But when the producer buys chemicals and hire tractors, they have to pay world market prices. But the price of rice is Rs 60. The

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tea rubber, cinnamon and produce like that. This year, this boom has spread into the paddy sector as well. Abandoned paddy fields are being brought into cultivation because despite the high cost of inputs, they can still make a profit. The last time we spoke, you said that in D.S.Senanyake's time, a kilo of rice was 40 cents and a kilo of paddy was 20 cents. The ratio now seems to have come back to those old levels.

A. When input prices go up, the output prices have to increase. Some people have told me that the prices of agricultural chemicals have almost trebled. Then more and more machinery is being used in paddy cultivation. The agricultural ministry has to play a very vital role.

we take the per acre paddy yields in countries like Thailand and even the USA, we are lagging behind. There are discrepancies within the country itself. The yields in Hambantota are much higher than in Anuradhapura or Polonnaruwa. Yet the soil conditions and the availability of water, are more or less the same. So it is up to the policy makers to address their minds to this issue.

Q. The final question. When the UNP was in government the last time, they stopped all recruitment to state institutions not just new recruitment, but even for existing vacancies. The philosophy seemed to be that we spend only what the income allowed. Taken as a whole Sri Lanka does have a substantial income, and if the

UNP to hold islandwide protests against unfair treatment

by Norman Palihawadana



Tissa

The UNP will hold a series of public protests countrywide against what it claims to be unfair treatment to the party during the recent Provincial Council Elections in the East, UNP General Secretary Tissa Attanayake told *The Island* yesterday. Attanayake said the protest campaign had started in Colombo on May 16. Protests were scheduled to be held in Trincomalee, Ampara and Batticaloa, he said.

He said large scale ballot rigging had taken place in Tirukkivil in the Ampara District. The public believed that a free and fair election did not take place in the East and legal action would also be taken soon to challenge the election results, he said. The Opposition, including the JVP believed that the UNP would have won the Eastern Provincial Council election, if not for the illegal practices the Government, Attanayake said.

LTTE reverts to hit and run tactics

by Harischandra Gunaratna

The LTTE continued its hit and run tactics targeting isolated policemen in different parts of the island. A policeman who was shot at while on duty at the police post at the 38 kilometre post on the Buttala-Kataragama road succumbed to his injuries on admission to the Buttala hospital. In another incident yesterday in the east around 6.05 a.m. a police commando was injured in Rufuskulam in Kandikudichchiaru. Military suspect that he was shot by an LTTE sniper. Around 7.45 a.m. yesterday three police constables were injured when a grenade lobbed by a Tiger cadre,

exploded at the police post in the Menik Farm area on the Medawachchchiya-Mannar road. Confrontations between the Army and the LTTE continued on the Vavuniya front yesterday. Seven LTTE cadres and two soldiers died in the attacks. Three were injured. According to Military Spokesman Brigadier Udaya Nanayakkara troops recovered two claymore mines, four detonators, three detonator cords and a 10-metre-long wire in a subsequent search operation conducted in Karavipuliyankulam in Vavuniya. Five LTTE cadres died and 21 others were injured in fighting in the Welioya front, he said. One soldier died and

another was injured. In Mannar and Muhamalai two soldiers were injured in clashes with the LTTE. Troops recovered 436 Anti Personnel Mines (APM) and 23 booby traps in a search operation while in Periyamadu in the Palampidi area the army recovered 41 APM's, two boxes of C-4 explosives and an anti tank mine. Palampidi which is 8 km north of Madhu was captured by the troops during the weekend. Tigers had abandoned the area. Nanayakkara said that in Nedunkandal in Mannar two LTTE attacks on the army Forward Defence Line had been thwarted by troops. A Tiger bunker line in the same location had been destroyed, he said.

The demise of Dr. Gamini Karunanayake

Dr Gamini Karunanayake, former Chairman of the National Transport Medical Institute passed away yesterday at the age of 71. Dr Karunanayake completed his post graduate studies in the UK specialising in Industrial Medicine and served the government for a long period. He also served in the Sri Lanka Army Medical Corps and held the rank of Major. A fine sportsman, he excelled in cricket and was a fine medium fast bowler, opening bowling with Nimal

Thammita for his alma mater Ananda College, Colombo, playing with the likes of Dhanasiri Weerasinghe who later captained Sri Lanka. Karunanayake was one of the most sought after players among schoolboy cricketers of that era and later represented the Government Services and the Sri Lanka Army. His remains lie at Barney Raymond's Funeral Parlour in Borella. The funeral will take place today at the General Cemetery, Kanatte at 2.00 p.m. (HG)