

BOOK REVIEWS

DEVELOPMENT UNDER STRESS: SRI LANKAN ECONOMY IN TRANSITION

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Development Under Stress: Sri Lankan Economy in Transition, by Saman Kelegama, Sage Publications, New Delhi & London, pp. 305, 2006.

A leading economist in the country, providing leadership to the Institute of Policy Studies, the author of the book has already established his mark as a critical commentator on important and topical issues in economics. The distinguishing characteristic in his commentaries, both spoken and written, is that he moves, quite correctly, out of the conventional confines of economics bringing relevant historical, political, institutional and sociological factors into his analyses to give them life.

The book is the author's second within about six months. The earlier work contained a collection of articles he had written to a Sunday newspaper over a period of ten months. *Development under Stress* is a collection of 14 research papers published over the last 10 years or so. These papers are published in this book after some editing together with an Introduction written specifically for this book to guide the reader through the anthology. The papers are presented in five parts: (i) fifty years of economic development, (ii) liberalization debate, (iii) macroeconomic management, (iv) sectoral policy, and (v) employment and poverty. Although the subject coverage of a few of the papers may be thought to have lost their relevance today through the passage of time, most of the papers in the collection appear to have present day relevance.

For purposes of this review, taken up for comment are only a few of the papers published in the book – selected largely on the basis of the reviewer's own personal disciplinary interests and for their being of particularly strong relevance today.

In general, the author examines and analyses comprehensively and carefully whatever subject that comes under his scrutiny. One is particularly impressed by the comprehensive nature of the analyses in a few chapters like Chapter 8 on Conflict Transformation through an Economic

Dividend and Chapter 13 on Structural Adjustment and Employment. On the basis of the subject matter in the few chapters commented on in this review, several themes will be taken up for observation. These themes, I believe, are sufficiently controversial to be raised in a book review of this nature.

Conflicts, Stresses and Development

As indicated in the Preface to the book the author notes that the chapters in the volume examine various impediments Sri Lanka faced in its development process, preventing it from achieving higher levels of development, which otherwise were within its reach. The entire socio-political and economic system is searched to identify these development impediments. The main theme in many of the chapters, also summarized in the Preface and the Introduction, and captured in the title chosen for the book, is that the country failed to achieve higher levels of development because of the stressful nature of the socio-politico-economic environment. The following paragraph from the Preface perhaps summarizes the author's perception:

Sri Lanka's experience with economic liberalization ... has some unique features. First, the country lived with export pessimism for two decades after independence and overstayed its experimentation with a closed economy before embarking on liberalization. (I)t was a late-comer to export-led industrialization. Second, it attempted to manage an open economy ... while there was an on-going war in the North-East of the country. Third, it tried to transform a conflict via a peace dividend based on economic gains from further liberalizing the economy. Fourth, it experienced weak coalition governments after 1994, and 2000 in particular, and tried to push through reforms while managing and safeguarding the political coalitions.

The author presents a similar analysis also in the Introduction. The fact that Sri Lankan policy had to go through such stressful conditions is interpreted as the main reason behind

its failure to do as well as the East Asian high performers. The analysis in the Introduction categorizes these stresses as having emanated from three “key factors”:

- Those arising from the contradictions of running a welfare state under sluggish economic conditions and rapid population growth;
- The fact that a strong export pessimism led to a controlled economy which was retained far too long and that there was the delay in the commencement of export-led growth;
- Stresses arising from failures to address the ethnic conflict in the country.

Any process of change – all processes of growth and development are about change – invariably generates contradictions, conflicts and stresses. There cannot be development, slow or rapid, without these accompanying stresses and conflicts – capital labour conflicts, urban-rural conflicts, and many other distributional conflicts. No growth process can do away with these conflicts, they can only be managed.

Conceptually, markets may be depended upon as a major mechanism for conflict management but the conflict-exacerbating powers of markets, particularly in developing countries with inadequate development of institutional safeguards to protect the interests of the weak in society, are likely to be stronger than the conflict-alleviating powers of market forces. Throughout the history of capitalism therefore, the state took upon itself the major role as the prime agent of conflict management, supported by its role of adjudication in conflicts.

If one takes the liberty to rephrase the author’s key point, Sri Lanka’s failure to do the feats or the miracles of East and South East Asian high performing economies (HPEs) could be attributed to the failure of the Sri Lankan state to perform its due role as conflict manager. One may also consider that there was another major point of view from which the state failed or was made to fail – namely the failure to give the socio-economic system a long-term vision. After 1977, in order to resolve conflicts, there was over-dependence on markets and, at critical points, dependence on the state’s coercive power rather than its consensus forming capability. Indeed the Washington Consensus framework which was guiding policy did not permit the state to acquire the necessary capacity to perform its conflict-management role.

In sum, the point that needs emphasis is the following. One has to be careful in presenting the argument that economic and socio-political conflicts and stresses were behind Sri Lanka’s failure to grow faster, because that argument can

give the impression that conflicts are taken as extraneous to the growth process – like so many other extraneous forces economists are familiar with. The more realistic position to take is that contradictions and conflicts are part and parcel of any process of change and that economic and social policies have to be designed taking this carefully into account. Sri Lanka, after 1977, has gone for policy reforms which included processes described by now very familiar terms like liberalization, privatization, stabilization and structural adjustment as discussed in Chapter 3. In this policy reform process, it is doubtful whether due consideration was given to understand and address contradictions and conflicts generated by policy reforms and to manage those conflicts so as to facilitate smoothness in the process of change. The writers that the author refers to frequently in regard to post-1977 policy reforms – e.g., Rajapatirana, Athukorala and Deepak Lal – were looking into questions like sequencing of reforms or completing the unfinished reform agenda but very rarely, if at all, into contradictions and conflicts in the policy process. One could draw from Sri Lanka’s past experience a few concrete examples of policy conflicts and failures to devise mechanisms to manage those conflicts when policy reforms were introduced:

- Serious conflicts arose from loss of jobs through liberalization and privatization as shown quite well in Chapter 13 of this book. Did the government consciously plan to create adequate sources of productive employment opportunities for those losing jobs in the reform process – except for hoping that liberalized markets would take care of this? Did the authorities ever devise adequate retraining programmes to enable those losing jobs to find alternative livelihoods? Did they have mechanisms in place to help entrepreneurs who were going bankrupt as a result of liberalization to move into promising new areas of investment?
- High rate of inflation in the late 1970s and early 1980s led to a serious drop in real incomes of fixed income groups. This led to serious conflicts. Was the correct solution the sacking of the eighty thousand or so public servants who went on strike in protest?
- Income disparities widened as a result of neo-liberal policy reforms as shown by survey after survey beginning from the Central Bank’s *Consumer Finances Survey* of 1982. This produced social conflict, which in the absence of conflict management mechanisms acquired serious proportions. In such an environment, is it enough to think, that also merely wishfully, that absolute poverty is dropping and ,therefore, the policy makers need not worry about

worsening relative distribution? When they realized that relative distribution also is important it was probably too late – as developments during the late 1980s showed.

- Markets, as should be expected, were favouring Colombo and metropolitan areas and discriminating against other regions. One of the solutions offered was the Integrated Rural Development Programme (IRDP). Was it correct on the part of Sri Lankan authorities to deprive the North and the East of the country of any IRDP initiative? It is good to remember that these projects had their origin very much before the commencement of armed conflict in these areas. It is also said that when the Mahaweli Scheme was accelerated, Iranamadu Tank, which was earlier within the Mahaweli Diversion plan, was removed from it. The Mahaweli Project indeed was the government's hope that liberalization would take place in an environment of widespread welfare improvement in the society, including that of the rural masses. By removing the Iranamadu Tank from the Mahaweli Project, its prospective benefits were denied to people, mostly Tamil, in the Wanni areas.

- Liberalization was implemented in an environment of excessive politicization of the bureaucracy and a system of majoritarian political practice, with no adequate safeguards to protect minority interests. It was nothing but natural in such an environment for movements demanding some autonomy for the North and East to gain strength. How fair were the methods the authorities adopted to address this issue, e.g., how they handled the 1983 incidents and action they took in respect of District Development Councils (DDCs) in the North.

For rapid development to take place, the environment in the country need not be free from conflicts and not stressful, because that kind of environment will never be found when changes are taking place. What facilitates rapid development is the ability of the state to better manage conflicts and stresses accompanying change – as was done in countries like Japan, South Korea, Malaysia, Singapore, China, etc.

Neo-liberal Policy Package

The 14 essays in this book were written at different times over the last 10 years. It is natural that during different times over this period the author would have taken somewhat different positions on controversial subjects about policies

and strategies. This was the period when Sri Lanka experimented with the package of policies variously described – neo-liberal or market-friendly or Structural Adjustment Package (SAP) or Poverty Reduction Strategy Paper (PRSP) or the 'Washington Consensus' (WC). Most Sri Lankan economists, as were their kind in the rest of the world, have been stuck in the so called neo-classical analytical framework behind these policy packages together with their ideological baggage. Very rarely have critical questions been asked in this country about the neo-classical analytical framework or the 'free' market (or laissez faire) ideological baggage over the last three decades. There seems to be greater readiness today than in the 1980s and 1990s to ask critical and awkward questions about the Washington Consensus. As in the rest of the world, in Sri Lanka too these critics may have any one of these options:

- Drop both the analytical framework and the ideology attached to neo-liberalism in favour of a complete alternative like socialism.
- Change the analytical framework (e.g., into traditions like post-Keynesian, historical/institutionalist) and drop the "complete free" market ideology.

In both options the state is brought back in – in the first option to become the key player and in the second to be a principal partner in a "coalition" of domestic private capital, foreign capital and state capital.

The few chapters used for this review give one the impression that most of them were written at a time when the author himself was stuck in the neo-classical model (though may be not in its ideological baggage). A chapter which gives that impression is Chapter 3 on stabilization and adjustment. Today the general impression in the country about the author is that he is allied to the second option mentioned above. This change in thinking produced over time may be through experiences of 'Washington Consensus' failures in Sri Lanka, is unfortunately not reflected adequately in the chapters in this book. This brings one to the industrialization issue. The author presents his critical perspectives about the 'Washington Consensus' in his discussion of this issue.

Issues of Industrialization

It is the reviewer's belief that industrialization in a developing country like Sri Lanka must be discussed in the backdrop of late-late industrialization scenario. This

has clear implications for industry in today's developing countries. When this scenario is kept in mind, one can easily see the difficulties of industrializing these developing countries in a laissez faire or neo-liberal framework. Particularly inapplicable is the negative industrialization strategy of "level playing fields" as advanced in the one-size-fits-all thinking of the Washington Consensus. It is activist industrial policy that conditions of late-late development recommend. History of industrialization episodes everywhere also supports efficiently implemented selective and activist industrial policy in developing countries. The importance of such an industry promotion policy is shown by the Sri Lankan experience as well in the last 30 years. The author shows the importance of industry promotion on a selective basis through his analysis of the 1990-94 period. He argues quite rightly that the challenge is to strengthen the current export-led industrial strategy, while making the import substitution sector more competitive. In regard to the latter he argues for the need for reasonable protection. The need for care in developing regional integration agreements, with the objective of protecting and promoting domestic industry, is highlighted.

North and East Conflict

The last topic to comment on is the North and East conflict. Very briefly a few words on the subject are indicated in the light of Chapter 8 on conflict transformation through an economic dividend. The enthusiasm to use

"economic development" as a means for conflict resolution was found extensively within the world community a few years ago. It probably remains even today although to a lesser extent. There has been a drop in that enthusiasm because of past failures (like that in Sri Lanka). This extensive enthusiasm and interest in what has come to be called the "economic dividend" arose concurrently with the World Bank increasing its role in analysis and action in conflict resolution in conflict-ridden economies. The world community came out strongly with the willingness to commit large sums of foreign aid to generate this economic dividend. This indeed reminds one of the times when the developed countries and international agencies were so naive as to believe that foreign aid could be the main vehicle to eliminate under-development from the world.

Economic development spread well to all communities in a society and to all regions in a country would be a good antidote (or a preventive measure) to the emergence of violent conflicts and separatist struggles. Once a separatist struggle got under way, with historically determined, firmly established social divisions highlighted as a basis for discrimination, an exercise with economic development as the main strategy will be rather ineffective as a corrective to the conflict concerned. This is what the author shows through his lucid and clever analysis in this chapter. As is well known, the North and East conflict remains Sri Lanka's most intricate and complex problem. This chapter should prove illuminating to all those who are interested in gaining deeper insights into this problem. ■

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