

# GROWTH VS. WELFARE POPULISM CAPITALIST DEVELOPMENT IN THE SOCIAL SECTOR, 1992

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A principle source of tension in the development debate as well as in economic policy making in Sri Lanka has been the relationship between the need for economic growth and constant pressure to maintain and even increase current levels of social welfare.

The interaction between these two factors is usually mediated through politics, the medium by which demands for social welfare are articulated. As a result, issues on social welfare tend to be highly politicised, giving rise to an ideology of welfare populism within a context of capitalist development.

The contradiction between welfare populism and the demands of the capitalist growth process has affected, at different points of capitalist development, the actual path of economic growth, the types of welfare policies to be followed and ultimately the political process itself.

Some major reasons which contributed to the emergence of this contradiction can be traced to the colonial period. Universal adult franchise and the emergence of a vibrant multi-party system, while helping to establish a functioning democracy, also made it difficult to ignore populist pressure from the electorate.

The left movement also contributed to the ideology of welfare populism. In fact, social welfare has been a major plank in the platform of the left both within and outside the government; when in government, they have promoted many policy measures which emphasized a welfare orientation in development.

It is also important to note that in Sri Lanka this ideology of welfare populism has often overlapped with the ethno-nationalism of the majority Sinhalese community. Many welfare oriented policies, specially those with a strong element of state intervention, have had the backing of Sinhalese nationalism. The social basis of this tendency has been the Sinhala peasantry, an important segment of the electorate; satisfying the economic and social needs of the Sinhala peasantry has thus become a major concern with political parties. Subsidising the small peasantry on a large scale at both the production and consumption levels has therefore become a component of welfare populism.

The ideology of welfare populism has had a tendency to become dominant in times of conflict in the 'Southern' part of the country where Sinhala population is concentrated. The JVP insurgencies of 1971 and of the late eighties prompted the governments in power to implement policies of a populist nature. The Land Reforms of the seventies and the *Janasaviya* programme of 1989 constitute two such policy responses.

Therefore the so called Sri Lankan model of development, characterized by significant improvements in social welfare indicators in a context of low economic growth, is a result of the politics of welfare populism rather than of any ingenuity of the development model itself. Welfare populism also forms a part of the ideologies of all parties. Consequently, all governments, despite their commitment to capitalist growth, had to respond to strong populist currents within themselves. Therefore populism was not only merely an ideology that emanated from the 'ruled'; a significant section of the 'rulers' were also imbued with this ideology. In fact in many regimes it was the populism of the ruling party that had created barriers to capitalist growth rather than demands originating from the opposition.

## Post-'77 Capitalism and Welfare Populism

This contradiction appears in the post '77 period of liberalised capitalist development too, but in a different environment characterised by a significant shift towards linking the economy to the international capitalist market. The liberalisation has decisively affected the exchange of goods, services and finances in relation to the international system; policies have been enacted to 'get the prices right', with greater emphasis on market forces, the private sector and foreign investment; attempts are made to restructure the state through the privatization of state holdings and reduction of the state administrative structure.

This renewed link with the international system has also meant the strong influence in policy formulation of multilateral bodies like IMF and World Bank, which, in the present phase of capitalism manage development policies on a global scale.



Some policy shifts introduced in the post '77 period appear to be irreversible, specially the set relating to the international system; in other words, the 'closed economy' period of capitalism has ended. For future capitalist development, countries like Sri Lanka have few options outside the utilisation of accumulation, markets, and technology of the developed capitalist world.

The recognition of the importance of economic growth constitutes another important ideological shift in the development debate. Many currents of thought in the seventies tried to de-emphasise economic growth by redefining the word 'development' so as to include other dimensions of growth. Thus the goal of economic growth became a part of what was called 'holistic development'. However the eighties have shown that the necessity for 'economic growth' cannot be wished away through redefinitions. The material base of society has to be secured in order to achieve other social objectives.

Several developments - primarily the demise of 'Eastern European Socialism' due mainly to a slow rate of economic growth and the possibility, as demonstrated by experience, of capitalist development in the countries of the 'periphery' - have emphasised the necessity as well as the possibility of economic growth. The ascendancy of capitalism at the end of the twentieth century has been primarily because of its success in delivering growth, although even apologists for capitalism would like to legitimise it through other liberal values like democracy, freedom of the individual, etc.

## Liberalised Capitalism and Changes in Welfare Policies

Policy shifts in the welfare sector in the liberalised phase of Sri Lanka's capitalism can be considered in three sections. These are:

- i. Reduction of transfer payments to households in the form of subsidies.
- ii. Restructuring of policies in the rural sector in order to reduce subsidies for the small holder.
- iii. Attempts to reduce the burden on the state in the fields of health and education while maintaining state control.

## Transfer Payments

During the pre '77 period, one of the principal methods of state intervention for the benefit of the poor was the enforcement of price controls and the provision of subsidies for certain commodities and services. The basket of commodities that was subsidised and the specific forms of subsidy have varied from time to time but the general idea has been to keep the prices of essential commodities like rice, flour, sugar, kerosene, milk powder and sometimes drugs at a low level.

The post '77 period has seen a significant move away from such policies. The state has withdrawn its interventionist presence in the market for welfare objectives. Price controls have been removed, although some prices in the public sector still seem to be determined by non-market considerations; the quantum of subsidies transferred directly to the consumer has also been reduced.

Table I shows this change, indicating that both the value of the subsidies and the proportion of the population in receipt of subsidies have been curtailed.

Table I  
Welfare Expenditure as a % of GDP

	Health	Education	Food Subsidy
1948 - 52	6.0*		2.7
1953 - 57	6.0*		1.4
1958 - 62	2.3	4.4	2.8
1963 - 67	2.1	4.4	3.2
1968 - 72	2.2	4.1	3.1
1973 - 77	1.5	2.8	4.0
1978 - 82	1.6	2.6	3.6
1983 - 87	1.4	2.4	1.1
1988	1.6	2.4	0.9
1989	1.7	2.9	2.7**

\* Includes education

\*\* Includes 0.3 % for JSP and 0.9% for wheat and rice subsidies eliminated in 1990

Source: Sri Lanka : Sustaining the Adjustment Process, World Bank 1990.

Table II  
Current Transfers to Households  
(1985-1989), Rs. Mln.

	'85	'86	'87	'88	'89
Total	7546	7100	8606	9621	12541
Food stamps	1339	1398	1477	1587	3573
Kerosene stamps	389	407	423	482	519
Infant Milk Subsidy	100	95	84	97	99
Mid day meal	31	25	61	147	653
Free Text Books	154	102	108	314	135
Janasaviya	-	-	-	-	705
Welfare payments	133	179	517	1181	438
NSB interest	495	199	174	72	110
Fertilizer	788	614	511	600	346
Pensions	2718	2984	3242	4128	4569
Others	1309	1097	2009	1013	1394
Total as % GDP	4.7	4.0	4.4	4.3	5.0

Source: Sri Lanka: Sustaining Adjustment Process, World Bank, 1990.

However, more recent data show evidence of the populist pressures that the system has to respond to. The Food stamp scheme which replaced the rice subsidy was meant

to be the primary welfare measure for the poor. This policy was in line with the general principle of replacing general subsidies with targeted welfare programmes, the policy prescription for the poor under liberalised policies.

The Food Stamp scheme in its initial stages covered almost half the population (7.2 million people) of the country. The number of persons receiving stamps for the period covering 1st April 1989 to 31st March 1990 was as follows:

Under 8 yrs	8-12 yrs	over 12 yrs	Total
1,443,959	852,988	5,456,849	7,743,796

During this same period 1,886,491 Kerosene stamps were issued to households of Food Stamp holders living in villages without electricity.

The main criticism made by the World Bank of the scheme was that the number of recipients was too large and that a number of people not eligible received Food Stamps. There was constant pressures on the government to minimise this 'leakage'; however, as it usually happens in welfare programmes, it has been difficult to remove people from the scheme once they were included.

As shown in Table II, total transfer payments since 1989 have increased due to the introduction of new programmes, chiefly Janasaviya and the expansion of the mid-day meal programme for school children. As a result, by the end of 1989, total welfare payments going direct to households stood at about 5.0% of GDP.

Although all food stamp recipients have Janasaviya entitlement certificates (around 2.3 mln. households) only 156,245 families had received Janasaviya payments up to the end of 1990. This group, the first round of Janasaviya recipients, received assistance till September 1991. By the end of this period they were expected to generate self-sustaining sources of income and move out of the scheme. In December 1990 another group of 77,260 households were identified for the second round of Janasaviya.

These policies go against the need to maintain fiscal balance, a principle requirement of the World Bank. Nevertheless, it is precisely their political importance that is responsible for their continued existence; all that can be done is to minimise costs and reduce adverse impacts by 'restructuring.'

Another set of transfer payments which the IMF/WB would like to reduce but finds difficult to insist upon due to possible political repercussions is the pension benefits enjoyed by government servants. In 1990 Government departments employed 609,750 persons, all of whom have the benefit of a pension scheme. The actual expenditure for pensions in 1989 was Rs. 4,569 mln. This amounted to about 36% of direct transfers to households

for that year. One proposal to reduce its cost is to increase the present minimum of ten years of service needed to qualify for pensions.

## Restructuring Support for Small Holder Peasantry

An important factor that has contributed to the formation of a welfarist ideology and policies in Sri Lanka has been the political commitment to the small holder peasantry by almost all political parties. This was due partly to the electoral strength of rural society; until the proportional representation system was introduced, the electoral system had a conscious and positive bias towards rural areas. There was thus a built-in advantage enjoyed by the rural sector and all political parties have found it expedient to placate the rural voter. This was reinforced by the dominant Sinhala nationalist ideology which saw rural peasantry as the repository of traditional Sinhala culture; to claim that it stands for rural society has been important for the legitimacy of all governments. One could argue that many of the country's welfare policies concerned with consumption needs had rural society as the main target and beneficiary. There was at the same time a package of assistance on the production side as well; peasant settlement schemes, subsidies for agro-inputs, credit facilities, crop insurance, guaranteed prices were the principal means of state support for agricultural production. These policies were rationalised by the economic argument for developing production levels and production forces in agriculture.

The gradual removal of production-oriented subsidies for the peasant small holder has been a consistent policy implemented during the post '77 period. The government has actually been more successful in carrying out these changes than in removing consumption subsidies. It has, for example, introduced a water-tax to get the small farmer to pay for irrigation facilities provided by the state, which were earlier given free.

Changes in agrarian legislation have meanwhile favoured the rich farmer's access to the land at the expense of the small farmer. Act No.58 of 1979 was designed to restructure agrarian relations so as to reinforce the rights and interests of landlords. The security of tenancy has been tied to the productivity of the tenant. The de-facto share going to the landlord has increased, while ensuring that big tenants will not emerge.

New schemes have been introduced to make state land more accessible to the commercial farmer as well as to the corporate sector. By leasing out land to private entrepreneurs, the government has managed in fact to avoid infringing the Land Reform Laws of 1972. This same phenomenon is taking place with regard to irrigated Mahaweli land as well.



The emphasis on market oriented policies has also meant allowing the market to determine the prices of agricultural inputs as well as of agricultural machinery. The private sector dominates now in this area of business. The last subsidy to be removed was that on fertilizer in 1990; along with this, steps are now being taken to privatise the Fertiliser Corporation.

Credit policies in the rural sector have become more restrictive since 1978, when the Central Bank withdrew its guarantees on agricultural loans. This has made commercial banks more cautious in disbursing agricultural credit. This tendency will be strengthened further when the recent demands by the IMF and World Bank to run the two state owned banks on a basis of commercial viability. Finally, with the removal of the rice subsidy, the state has drastically reduced its role as a major buyer in the paddy market. The functions of the Paddy Marketing Board have been severely curtailed and this has effectively ended the policy of 'guaranteed prices' to the small farmer. The involvement of the state in purchasing paddy is now minimal as the price offered is usually lower than that offered by private buyers.

There are also institutional reforms intended to reduce the state's role in running agrarian extension services. Farmer's organizations formed under the Amended Agrarian service Act of 1991 are expected to take over the management and operation of these services. Such organizations have been already established in some of the major irrigation schemes.

These policy changes in the rural sector, basically a part of the overall strategy of capitalist growth, are backed by the promotion of an ideology of 'self-reliance.' There are two different shades of meaning given to the slogan of self reliance. The first is the lessening of the small farmer's dependence on the state for inputs, services and markets. The second meaning implies the goal of making farmers economically viable within a market economy. The ultimate goal is to make the farmer more commercially minded and market oriented. Accordingly, farmers are motivated to pay back agricultural credit rather than to view it as a form of subsidy. Diversification of output to include commercially viable crops is another aspect of this process.

NGOs too play an important role in promoting this ideology. The notion of self reliance has become an integral part of the ideology of many NGO projects. In some instances, NGOs merely replace the state in carrying out social services; in others, specially when they work with more successful farmers, NGOs help to develop entrepreneurship among farmers. However, the success of these strategies will be determined by the overall dynamics of the liberalised economy.

Against this background, there are clear signs that a new process of capitalist accumulation is taking place in the rural sector. While this tendency may vary depending on production conditions, it is more visible in the irrigated dry zone areas, where there is a greater thrust towards commercial crops and away from paddy.

Along with the new accumulation process, the corporate sector in agriculture is expanding. The corporate sector is highly involved in the provision of agro-inputs through the market. They use intensive advertising campaigns, using even the TV medium, to market their products among farmers. The corporate sector is also expanding its investments in commercial agriculture. The market liberalisation process in the agricultural sector and the government's policy of making state land available to the private sector under various lease agreements have contributed to increased corporate investments in agriculture.

Then there are the problems of the small farmer. There seem to be very few examples where the small farmer has been able to survive in the market. Once the subsidy schemes were withdrawn, survival has become difficult. Even most NGO projects do not identify small farmers as a special target group for assistance. The approach is through a community development perspective where the entire village is the target. The ultimate beneficiaries of such an approach in the present context are the economically better-off farmers.

Low unskilled wage rates have been a primary reason for poverty in Sri Lanka and a large proportion of the poor are found among small farmers.

## Education and Health

Another component of welfarist ideology in Sri Lanka has been the notion that the state must bear the responsibility for providing services in the areas of education and health. The role of the state sector in providing health care has been dominant right from the beginning, even during the colonial period; in the case of education, state domination became complete in the sixties through the state take-over of Grant-in-Aid schools.

State intervention in these areas was backed by social justice arguments. The growth of a state monopoly was supported as a means of redressing economic disparities and delivering distributive justice. The presence or entry of private initiatives in these areas was seen as either helping to continue existing disparities or even aggravating them.

The post '77 period has, however, seen a shift in these attitudes. Private ventures in education and health have emerged in urban centers. In education, private sector



involvement is mainly in the secondary and intermediate stages. Political pressures have kept private capital away from higher education. Similar developments have occurred in the health sector. A network of private clinics and hospitals has been set up, supplementing individual private practice which was the dominant mode of earlier private health care.

However, the expansion of private initiatives in the areas of Health and Education has not so far meant a dismantling of state managed institutions, whose overall structure has been maintained. Instead, the main attempt has been to reduce the burden on the state either by reducing current expenditures or by motivating the institutions themselves to find supplementary resources for capital expenditure. On the other hand, populist measures in the area of education like the distribution of free school books and uniforms have increased government expenditure on social welfare.

Both the practice as well as the debates on educational expenditure shows political pressure that no government can easily ignore if steps are taken to dismantle the state sector in education. Even relatively small attempts at reducing expenditure have become controversial, as, for example, the present attempts at establishing School Development societies.

While the institutions are being maintained, however, education and Health are two sectors where government expenditures have been stagnant for many years; this means that the resources allocated to these areas have not kept pace with either inflation or the increase in demand. Neither has the state found it possible to remove regional and other disparities in the education structure.

Another problem is the internal efficiency of the state system and the quality of services provided. Attention to the quantitative expansion of educational facilities in the past has led to relatively little attention being paid to the question of the quality of education. However current growth processes are likely to demand from the system a different and better kind of education.

But improvement of quality will demand additional resources. As it is doing now, the government will try to look for donor assistance to meet these needs. The question then will be the kind of reforms the donors demand as the price of their assistance. The education and health sectors will both probably face this critical question in 1993. In these reforms, the more efficient use of resources presently available, more encouragement to private initiatives and introduction of some form of user-fees are likely steps.

## Concluding Remarks

This survey of current welfare policies has shown the continuous pressure of populist ideologies that impinge on policy formulation. What we see is an attempt to move in the direction of capitalist growth while managing populist pressures, from both within and from outside the ruling group itself.

The reduction of subsidies to peasant agriculture and the steps taken in this sector to release market forces has resulted in an accentuated social polarisation; within this process, the condition of small farmers has deteriorated.

The other sectors of the economy are not growing adequately to absorb them. Various attempts to convert small farmers who have depended on subsidies into viable small producers within a market economy do not seem to have been successful either. Even non-governmental efforts with their so called 'income generating projects' are unable to survive within the market.

Steps to regularise and improve wages in the agricultural sector, on which a large number of small peasants depend, seems one possible way of redressing their condition; however this alone will not be sufficient to overcome the problem.

The basic question then arises: has the market alone the capacity to satisfy the needs of the rural poor? Some form of state intervention appears to be needed. Such interventions are not unheard of even in developed capitalist societies. However what form this intervention should take and how to ensure that it does what is intended are questions that remain.

Populist pressures have been stronger in the case of transfer payments to households, specially after the Premadasa regime came into power, with new programmes like the Janasaviya.

Although introduced primarily due to political reasons, these programmes play an important role in the survival strategies of those who find it difficult to survive on agriculture in the rural areas. Assistance given by these programmes and income earned through casual labour seem to be the main sources of income for the rural poor. However these programmes are beset with enormous problems of efficiency and reach; because of political expediencies, they are unable to play even their potential role as a welfare net.

### Note

1. Conflicts that have an ethnic base, such as the struggle of the Sri Lankan Tamil minority, do not evoke similar responses. This shows the link between welfare populism and the ethno-nationalism of the Sinhala majority.

