This article is extracted from work-in-progress on a research project undertaken by the Social Scientists' Association on the experience of structural adjustment policies in Sri Lanka. It seeks to define the economic policies of the Premadasa regime and the political and social factors that played significant roles in their formation.

ECONOMICS OF THE PREMADASA REGIME

Stabilisation and structural adjustment programs advocated by the IMF and the World Bank as necessary conditions for integration into the capitalist world market generally consist of measures that are politically unattractive. The recorded history of popular protest against these programs are now referred to as "IMF riots". The adoption of such programs by national regimes therefore represent last-resort decisions taken at times of deep economic and financial crisis. The situation in Sri Lanka in 1977 was rather different; there was a crisis-*like* situation, but it was primarily the regimes's ideological orientation that led it into the IMF and the World Bank fold.

Economic Growth and Structural Change

Let us begin with an overview of the pre-1977 situation.

Sluggish growth was the most characteristic feature of the pre-1977 economy. Compared to star growth performers of the time, Ṣri Lanka's growth performance over 1970-77 was, no doubt, mediocre, although it may be rated comparable or even superior to that of the average developing country. The argument that growth was mediocre could, therefore, be better understood as mediocrity in the context of the aspirations of Sri Lankan society which that economic growth was inadequate to fulfil.

The sluggishness of the manufacturing sector which in a growing economy is normally expected to exhibit the greatest degree of dynamism, was a major factor behind employment and balance of payments problems. The slight expansion of the services sector from 48 per cent to 51 per cent probably absorbed some of the pressure for employment opportunities from the growing labour force. In the case of the country's traditional agricultural exports, adverse long-term trends in their relative prices had extremely bad repercussions, yet little was done to offset the impact of such commodity price changes on export earnings. Certain measures like the Land Reforms of 1972 and 1975 worsened the economic conditions of these sectors although they had desirable social impacts on their labour. Some food crops received government patronage and in fact, emerged as relatively dynamic sectors of the economy. These activities were almost totally domestic market oriented.

There was some emphasis on export-oriented industry by about 1975, but manufacturing activity continued largely to be dominated by import substituting industry, in both the public and the private sectors. This strategy proved incapable of providing the kind of jobs that were in demand at the required rate. What often happened was a filling up of public sector institutions with redundant labour. This led to a reduction of their surpluses, thereby restricting much needed accumulation or to deficit financing problems; scarce resources were thus diverted away from desirable social and economic projects.

The pattern of growth and structural change during the early 1970s was guided by a desire for self-reliance. Self-reliance, properly defined, could be an effective guiding principle to achieve economic dynamism but, narrowly defined in the sense of reducing the extent of dependence of the national economy on world markets, it could also become a barrier to dynamic growth. The concept of self-reliance was defined in this narrow sense in the first three quarters of the 1970s; although the *Five Year Plan had* drawn attention to the limits of import substitution and the need for export expansion, economic policy continued to be highly inward-looking. The particular interpretation of self-reliance adopted at the time was thus, for all intents and purposes, one of autarky. This had naturally restricted the dynamism of the economy whose growth prospects were severely restricted by the small size of the market. It was also responsible for the lack of any significant structural change in the economy. All these factors contributed to growing public disillusion with the prevailing development strategy.

Employment and Unemployment

The slow growth and the lack of any significant structural change was set against a relatively rapid growth of the labour force and higher job expectations among those seeking employment. As a result, the problem of unemployment and under-employment gradually became politically explosive, figuring significantly in all general elections after the mid-sixties. Among the many social, political and economic reasons for the emergence →

and expansion of youth unrest and violent political protest since 1971, growing unemployment and the mismatch between available employment opportunities and aspirations of job seekers was of crucial significance.

Inflation

The economy until the beginning of the 1970s, was characterised by relative price stability. Low rates of *world* inflation, state interventions in the market - most importantly price subsidies on food and other basic essentials - and the relative stagnation of economic activity in the country were factors responsible for this price stability. Conditions changed substantially after 1970, particularly with the oil crisis of 1973; the substantial increases in prices had a significant and widely spread impact on prices and pushed inflation to a higher level by the mid-1970s.

The impact on public opinion of poor economic performance, growing unemployment and more rapid inflation was devastating to the popularity of the regime in power. Large numbers of the unemployed and the poor in rural and urban informal sectors were disgruntled with the overall economic results; fixed wage and salary earners, who were politically quite active and vociferous, were disaffected by the gradual erosion of their real incomes as a result of rapid inflation. This explains to a large extent the massive defeat of the 1970-77 regime in the general elections of 1977.

Developments in the external sector of the economy indicate an interesting contradiction between the long term goals of self reliant development and short term political expediencies. The management of balance of payments, as required by the needs of long term sustainable development, were responsible for growing popular discontent; on the other hand, analysed on strictly economic criteria, the measures adopted did nevertheless lead to greater strength in the country's external economic transactions. This period may be characterised as one in which the country managed to keep external deficits at relatively low levels-trade balance at less than (-) 6 per cent, current account balance at less than (-) 27 per cent and basic balance at less than (-) 3 per cent of GNP. It should be noted that all these balances were in surplus in 1977, even though, in the absence of a flow of foreign resources by way of direct foreign investments, foreign grants and loans, the government had been forced from time to time to seek commercial credit. The external debt service ratio in 1977 was 16 per cent. Countries going in for stabilisation and structural adjustment programs (SSA) have often been pushed into that position by economic crisis, particularly in the management of external finances. The external finances of Sri Lanka in 1977, however, could not be described as reflecting crisis conditions. The assets accumulated were in fact available to support the wide ranging liberalisation exercise carried out in 1977.

II. New Economic Policies: Background

Economic policy in Sri Lanka since 1977 falls within what is generally described as an SSA package. No doubt, the development of these policies was guided under loan conditionality provisions of the IMF and the IBRD; they were underwritten by international capital through financial resource flows from these institutions as well as from the world donor community and private capital markets. The point which the foregoing paragraphs attempted to develop, however, was that in 1977 the Sri Lankan economy was not in a real financial crisis with no option but to resort to SSA type policies.

In the parliamentary elections of 1977, a political party (the United National Party: UNP for short) of the right wing of Sri Lankan politics which had all along stood for a capitalist path of development came into power. The class basis of the UNP which is oriented towards private enterprise and market forces made SSA policies quite acceptable to the regime of 1977. In addition, the large popular mandate it had received was interpreted as a total rejection, by the electorate, of the previous system of extensive state intervention in the market and as an invitation to devise and implement a drastically new set of policies. As the World Bank itself had stated in one of its recent reports (World Bank, 1986, p. 13)

> Although the change in strategy was a Sri Lankan initiative, based on the new Sri Lankan government's own perception of a desirable strategy and designed by Sri Lankan officials, it went far in the direction of adopting policies which the Bank, and most other donors, had long advocated. .....(I)n 1977 the Bank's role was quite limited....The Government therefore initially turned to the IMF for help and advice. The Bank's role became more significant later, in helping to ease the costs inherent in the liberalisation strategy.

The thrust of the 1977 policy reforms was three-fold: (a) to eliminate direct state controls affecting economic transactions and "price distortions" emanating from controls and other restrictive elements; (b) to expand the economic area available to the private sector for its operations; and (c) to change the focus of economic activity from inward-orientation to outward orientation. The objective of integrating the Sri Lankan economy into the world economy and world market relations can be seen as operating inexorably in the policy reforms begun in 1977 and continued upto now.

The implementation of these far-reaching policies was concentrated into the years 1977-78 but continued →

beyond them; it was a case of making radical changes quickly and in a short period of time, rather than within a more protracted process. The main elements of this policy are well known and will not be dealt with here.

Unprecedented amounts of aid and balance of payments financing were received in support of the government programme from the IMF, the IBRD and the Aid Group members; these met the increased import demands which emanated from import liberalisation as well as the government's ambitious capital expenditure programs. There was, on the whole, a substantial increase in the ratio of gross capital formation to GNP. Domestic savings however, remained low and keeping investment at high levels meant a heavy dependence on foreign assistance.

The growth impact of liberalisation and the high rate of capital formation in the initial phase were impressive. There was a doubling of the rate of annual growth as between 1976-77 and 1977-78. The average of the growth rates for 1977-82 was also double that for 1975-77. This output growth was widely spread across most economic sectors with the major exception of the tree crop sector.

There was in this experience an element of "beginner's luck" (Lakshman, 1986). Underlying weaknesses of the policy package, however, started surfacing gradually. Most of the major construction works of the Accelerated Mahaweli scheme were about to be completed by the mid-1980s, but its production impacts would take a longer time for realisation. The concentration of investment effort in the so called lead projects created an imbalance in total capital formation. Large capital investments, concentrated as they were in infrastructure projects, created a bias against investments in direct and quickly productive activities by siphoning away the limited funds available. In addition, they created large annual budget deficits, sharp increases in imports, trade and current account deficits, and significant increases in the money supply. On the side of exchange earnings, large and growing volumes of migrant remittances, increases in manufactured exports and revenues from tourism were favourable factors, but these activities involved high return flows of foreign exchange and their contributions to net exchange earnings were rather limited.

In spite of these underlying weaknesses, the viability of the policy changes appeared to be confirmed, at least outwardly, by economic growth, buoyancy in economic activity, tempo of investment and job creation till about 1983. In the Presidential elections of 1982, the leader of the UNP and the initiator of these reforms was re-elected; his victory was interpreted as a mandate to continue with market-oriented, liberal policies. However, the underlying economic weaknesses became pronounced and more difficult to handle as economic weaknesses *per se,* and to be further compounded by many political and social problems.

The problems which assumed serious proportions after the mid-1980s had their origins in the way that market-oriented policies had been implemented. The policy reforms of 1977 had been introduced from a position of strength in terms of the country's balance of payments; however, contrary to expectations, liberalisation itself, coupled with the government's ambitious investment programme, had gradually taken the country into a payments crisis which became serious by 1989, though signs of the crisis had been visible earlier. The world recession of the early 1980s and other factors made it more difficult to expand aid even as the costs of the government's investment programme increased. The acceleration of world inflation meant that even committed aid lost substantial value in real terms. In the years 1980-82, the government was compelled to raise considerable amounts of commercial credit, thus producing conditions for a future sharp rise in external debt service ratios. But the policy framework remained more or less unchanged. Until after the Presidential elections of 1988, neither was a change in the basic policy framework envisaged nor was prompt stabilisation action, even within the basic SSA framework, taken to meet the emerging crisis. Thus when the government decided to take corrective action, the crisis was at its height. This meant moving closer into agreement with the IMF and the World Bank, subjecting the country to harsher forms of loan conditionality.

The economic difficulties of the second half of the 1980s are often attributed to the violent separatist movement in the North and the East which had gained momentum after the 1983 anti-Tamil pogrom in Colombo and other areas. No doubt the difficulties into which market oriented policies were increasingly falling were substantially aggravated by the worsening of the country's ethnic crisis which quickly took on the proportions of a civil war with heavy expansion of security related expenditures. Its impact on some of the key supports of the 1977 policy package, like tourism, DFI flows and private investments in general were rather disastrous. The migration of large numbers of skilled and professional people out of the country and substantial destruction of assets, in addition, had adverse repercussions on production; the impact on some sectors like fishing and certain agricultural sub-sectors was particularly bad. While stressing the deleterious effects on economic management of this crisis, one must also bear in mind the interconnectedness of economic, social and political phenomena. One could find, as Gunasinghe did, (Gunasinghe, 1984) causal links running from market-oriented policies to the 1983 incidents and the resulting militarisation of ethnic politics in the country.

However, it is best that we begin with a review of the performance of the economy after 1982 in terms of indicators normally presented in favour of SSA policies. The rate of economic growth fell from 1978 onwards, from →

6.32 per cent in 1978 to 5.07 per cent in 1982. Helped by the tea boom of 1984, growth remained around 5 per cent during 1983-86 too but the subsequent political situation brought the rate down to 2 per cent during 1986-89. The "beginners' luck" of 1977-82 had worn out and if "luck" in the form of rising tea prices had not intervened, the crisis which hit the country by 1989 would most likely have occurred earlier.

The sagging economy, after 1982, had its impact at the social level too; open unemployment, estimated to have fallen from over 20 per cent in 1977 to 12 per cent in 1981-82, began rising - 14 per cent in 1985-86 and 16 per cent in 1986-87. Because of certain continuing patterns of unemployment - its concentration among the young and first time job seekers and among the relatively more educated, long duration of unemployment, the dependence of the unemployed on family support with its adverse repercussions on household savings, more or less equal distribution of the unemployed between male and female categories, the problem was a volatile social and political issue.

The economy's performance on other important counts was even more disturbing. These refer particularly to issues of poverty, equity and social justice. The adverse implications of SSA policies in these respects were visible even by 1982. The system was clearly moving away from the pattern of social justice and equity that Sri Lankan society had been used to. Questions began to be asked about absolute and relative poverty. In the early stages of SSA policies, there was a certain optimism that market oriented policies would lead to a gradual reduction of "absolute poverty"; the government, the administration and advisory teams from various international organisations took up a position like this: "If the numbers in absolute poverty are going down, why bother about growing inequality ?". *Even if* one opts not to dispute the claim that there was a "reduction of absolute poverty", the second part of the argument was clearly untenable in a highly politicised community which had enjoyed conditions of relative equity even if it had been called (World Bank, 1986, p.18) a condition of "shared poverty".

The evidence that the system was moving towards inequality and inequity was incontrovertible - not only in terms of size distribution of income, but also spatially and in terms of distribution of opportunities (Lakshman, 1992). Towards the end of the 1980s, the government's concern over issues of poverty and malnutrition became evident in the appointment of high level official committees to frame policies to meet these problems and to devise ways of strengthening the "safety nets" provided to protect the poor.

With economic conditions deteriorating, the government had perforce to seek more World Bank and IMF assistance. In fact, in 1981 there were negotiations between the government and the Bank on the importance of further structural adjustment and the desirability of tangible donor support for it on a programme basis; the discussions on a Structural Adjustment Loan (SAL) facility proved fruitless, for a variety of reasons, particularly the fact that the conditions attached to the proposed SAL were highly visible, far-reaching and politically unacceptable (World Bank, 1986, p. 22). The political costs of a SAL were viewed by the government as excessive, particularly at a time of pending general elections.

Economic difficulties were temporarily alleviated by the 1982-84 rise in tea prices and the terms of trade. This was a temporary respite in a situation of almost consistent, and substantial deterioration in the terms of trade. In addition, while the World Bank was looking for a SAL agreement, other donors were willing to provide non-project finance in substantial amounts with few conditions attached. Thus, in the period 1982-86, the government was able to maintain the system with very little resort to the kind of IMF and World Bank loans and other forms of external finance which would have involved highly rigorous conditions.

For years, government statements and World Bank and IMF reports had repeatedly emphasised the importance of increasing savings and export earnings. This had become even more urgent by the mid 1980s when foreign aid became increasingly difficult to raise. Since a basic weakness in the post 1977 policy package was the dependence of the rate of investment, and with it the rate of growth, on foreign resource inflows primarily in the form of foreign aid, any significant decline in foreign aid would have meant a sharp drop in the rate of growth and employment creation. Sri Lanka was running deficits on many accounts — trade, fiscal etc. — at rates which were clearly unsustainable. Heavy borrowing in the early 1980s in commercial markets, as aid was inadequate to meet the prevalent resource gap, aggravated the longer-term problem.

The gradual changes in the structure of production were of limited assistance in alleviating these problems. Although the expenditures on Mahaweli were declining by the mid-1980s, thereby freeing resources for other uses, its production effects were not yet available in expected magnitudes; facilities to distribute water for agricultural production took more time to develop. Growth in rice production could have somewhat relieved the pressure on the balance of payments, but rice imports continued to form a fair share of total imports, particularly at times of droughts and floods. Imports of items of food and drink declined as a share of total imports but in absolute foreign exchange terms they increased in magnitude.

Export growth of the period was concentrated in the garments sector which was heavily import-intensive in its input procurement patterns. It is noteworthy that the proportion of intermediate products in total imports →

increased from 19 per cent in 1971 to 40 per cent in 1978-79 and 44 per cent in 1985-86, thus making the structure of imports extremely inflexible. No significant progress in the domestic procurement of needed intermediate inputs could be observed in the way market forces were guiding resource allocation patterns. Market forces, as they operated, failed clearly to produce a viable foreign trade pattern. The activities which were the most productive in terms of *net* foreign exchange earning per unit of commodity exported, or per unit of labour or capital used -the traditional tree crops -stagnated. Certain other foreign exchange earning activities like tourism which received substantial stimulus during this period, as well as DFI flows, were exceedingly prone to political disturbances that plagued the country at the time. Expectations that inflows of foreign *private* capital would play a major role in dealing with the interrelated savings and foreign exchange gaps were not being realised because of the politically unsettled conditions and of the nature of the domestic capitalist class that was available for joint ventures.

Clearly an increasing diversion of resources to savings was required; the savings rate has been low in comparison with other export-oriented rapidly growing economies. Risk and uncertainty factors emanating from the political situation did not help either in pushing up the saving rate. Conditions were aggravated by rising security costs after 1983 and by continuing inefficiencies of publicly-owned enterprises. Overall revenue policy, depending as it did on fiscal measures, almost entirely, to provide the necessary incentives for accumulation and growth, led to the total or substantial exclusion of the fastest growing sectors from tax liability. The stagnation in the production of tree crops, and their declining prices were also responsible for sluggishness of revenues.

It is this poor economic management that, at least partly, provided the background to the political developments of 1986-89 in the regions of the country lying outside those affected by ethnic violence. It was in a political environment that turned extremely violent that the Presidential elections of 1988 and the Parliamentary elections of 1989 were held.

The "open economy" policies as implemented, provided part of the basis for the continuation of extensive poverty, increase in inequality in incomes and opportunities, and growing unemployment which provided, to a substantial extent, the background for the social and political crisis. The unresolved ethnic conflict and the nationalist mobilisations it engendered, the growing political repression and the widespread belief among the politically sensitive segments of society that the government was moving towards authoritarianism provided the other part of the relevant background. It is thus understandable that the Presidential elections of 1988 were fought on an extensive "social welfare" and "populist" platform - a promise to alleviate poverty and related conditions. The now well known *janasaviya* programme represented the backbone of this extensive "social welfare" programme, which, however, was described as a package which was intended to achieve "social welfare" through a production oriented programme of action.

After 1988, thus, economic policy in the country rests on a concept and rhetoric of a "two-legged" development strategy. Within this strategy, the framework for the dominant "modernisation" leg is provided by a more vigorous adoption of the familiar policy measures within the Structural Adjustment Facility (SAF) of 1989-92 and an Extended Structural Adjustment Facility (ESAF) since 1992. The major objectives of the Policy Framework Paper (PFP) which guided the operation of the SAF of 1989-92 thus included the containing of public expenditures and increasing their efficiency, raising government revenues, reducing excess liquidity in the system, improving the efficiency of the civil administration and reducing its costs, reducing the number of public enterprises and increasing the efficiency of those remaining, increasing international competitiveness of manufacturing and its export orientation, improving the private sector's willingness to invest. The policy measures suggested are also the familiar ones: reduction/ elimination of subsidies, currency depreciation (the euphemism used here being "flexible management of the exchange rate"), reduction of the size of government (both numbers employed and areas under government administration), privatisation, tax reforms and reduction of tariffs, liberalisation of capital and stock markets and so on.

Various schemes intended to promote self-employment, micro enterprises etc., among which the *janasaviya* programme holds politically the key position, constitute the rather weak and largely political "second leg". The rationale for the second leg emerges from the politically vital need to alleviate adverse social and political implications of the operation of the first leg. The eventual success of the current overall economic strategy would be fundamentally dependent on the success of the first leg to achieve its long term objectives in such a way as to make the benefits of growth be widely spread socially and spatially. Until that happens, some elements in the second leg policy may turn out to be useful, in the short and medium runs, to keep at bay the resentment of the people against the sacrifices they are called upon to make in the pursuance of policies in the first leg.

The success of the first leg would depend (a) on what happens in the rest of the world, (b) the nature, adequacy and speed of domestic responses to such world developments and (c) measures taken domestically without compulsion from international developments and private sector responses to such measures. In the current context, where all major decision making processes are guided by "conditionality provisions" attached to foreign

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assistance, it is doubtful whether the specificities of domestic socio-politico-economic conditions are adequately taken account of in framing policies.

Conclusion

When Sri Lanka adopted a set of market oriented policies in 1977 it did so primarily of its own free will, but with the support of international capital in general, and the IMF in particular to meet the immediate foreign exchange costs of liberalisation. Since the reforms were introduced from a position of some strength, particularly in the country's external economic conditions, the government could negotiate with international capital to include certain elements of policy like heavy capital expenditure on infrastructure development and resulting large budget deficits, which are normally not admitted into an IMF package of stabilisation measures. After an initial period of some positive response from society, helped also by certain extraneous developments like the 1984 rise in tea prices and the terms of trade (which the then President described as a "God send"), serious difficulties began to surface. It is often argued that political developments of the post 1983 period absolve the policy from responsibility for subsequent poor performance but questions may be raised as to whether these political problems were not, at least to a certain extent, its own results; Sri Lanka is not, after all, the only country in the world where SSA policies advocated by the IMF and World Bank have led to political resistance and violence.

Growth even in the period of "beginner's luck" was dependent heavily on foreign capital. While the more rapidly growing private sector continued to fritter away its income on consumption, public sector savings continued to be negligible, if not negative. SSA policies have promoted conspicuous consumption and extravagance rather than frugality and thrift, particularly in the large-scale private sector and public sector. These practices have had extensive demonstration effects on the rest of society. Thus when foreign capital became difficult to obtain economic growth started faltering, producing in its wake an increase in the rate of unemployment. The general fiscal and monetary management of the economy remained very weak producing high rates of inflation and a pattern of declining real incomes for large sections of the population. The solution to inflation, dispensed almost regularly, was currency depreciation which, while perhaps maintaining some foreign competitiveness for local products, nevertheless made living conditions intolerable for most. The results of liberalisation and currency depreciation on relative export-import growth rates were quite divergent and the country which started on the reforms from a position of strength in 1977 was thrown into a balance of payments crisis in 1989.

The benefits of economic growth were distributed very unevenly producing an evident polarisation of the society into haves and have-nots. Conditions of poverty remained unalleviated. Even spatially, growth stimuli were diffused unevenly. As elsewhere, in Sri Lanka too, the expansion of capitalism through SSA type of policies have led to excessive inequalities among social classes and have been heavily urban-biassed with emphasis on large scale enterprises; they have also been disruptive of traditional social structures without any real modernisation of social relations.

The economic crisis of 1988-89 and these adverse political changes led the regime more and more into SSA type of policies as the system became less and less self reliant and more and more foreign aid dependent.

Market-oriented policies are presented as capable of achieving the objective of "stable growth" more efficiently and effectively than dirigiste policies. This expression, "stable growth", captures the combined objectives of balance of payments and price level stability as well as stability in economic activity resulting in dynamic growth of production, productivity and employment. The path taken by market oriented policies of the SSA variety to achieve these objectives is one of integration with the world economy and world market relationships. Autarky and isolation from those relationships are viewed as inefficient policy options. At the conceptual level, these policies find their rationale in neo-classical economic theory, of which the comparative advantages theory of foreign trade forms an integral part.

For various historical, political and social reasons, state policy in Sri Lanka, since even the latter stages of colonial rule, has been equally interested in another set of objectives, economic growth and social equity. Many factors may be adduced to explain this phenomenon: the practice of universal adult franchise in Sri Lanka since 1931, i.e. seventeen years prior to political independence; a history of social legislation dating back to the colonial era; left wing Marxist politics and powerful trade union organizations with a long history in the country; relatively widespread educational facilities and high literacy rates; experience among the poorer sections of the population in various movements of social protest. The social and political impact of these factors may be interpreted in various ways, but at the minimum, it placed limitations on the ability of the country's basically capitalist regimes to follow laissez-faire market-dominated policies and compelled them to devise policies that would take care of the advancement of living conditions of the relatively less well to do and the poor classes, without leaving it to the mercy of a process of "trickle down". The very sustenance of the bourgeois state required elements of "social welfarism"; since independence, different political regimes have placed varying priorities on the two

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elements of this growth cum social justice package. A fundamental criticism leveled against this attempt to combine growth and re-distributive justice was that it slowed down economic growth; a consistent theme was that Sri Lankan policy had sacrificed output growth for a more equal income distribution.

Post-1977 economic policy appears to have accepted this position, although it has not been pursued to its logical end because the regime could not entirely discontinue the various re-distributive elements of policy. It maintained the rhetoric that its policy too would continue to be one of growth combined with social justice. In the early stages, economic policy was dominated by growth-oriented demand and supply measures, combined with the continuation of a number of pre-1977 policy elements like free education and free health and certain "safety net" measures like the food stamp scheme which replaced the price subsidisation of food. In this frame of thinking, redistribution, basic needs and living conditions of the poor are, in the last analysis, dependent on economic growth; but its implementation required a certain degree of social and political tolerance towards such measures. It is thus understandable that the SSA package in Sri Lanka carried with it a lot of populist and "welfare" rhetoric. At a later stage, particularly after 1988, poverty alleviation programmes, among which the *janasaviya* scheme has come to occupy the pride of place, have been added to the policy package as a further populist appendage. The presence of these redistributive measures was dictated primarily by political imperatives. In a fundamental sense, however, the SSA package was built on the argument that, before being concerned with the question of distribution, the government must ensure that the total product to be so distributed continues to expand. The consistent emphasis and priority has thus been on 'growth' rather than redistribution.

The question as to whether this approach can take the economy out of its underdeveloped state leads to two sets of related questions:

> Is the policy package internally consistent? Are the various cause/effect relationships stipulated valid and empirically verified in a general sense?
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> Can the policy package as envisaged, when adopted to specific Sri Lankan structural and institutional contexts, produce the results which it claims to be able to achieve? Do these underlying structural and institutional conditions make the implementation of these policies in their envisaged pure form feasible?

Firstly, the policies as adopted do not appear to be adequately concerned with the importance of building up a strong domestic industrial capitalist class, a necessary condition for the use of foreign capital. Such a class could be developed by providing protection from imports within a <u>selective</u> and <u>graded</u> system which would <u>gradually change</u> over time as need demands.

Secondly, a readiness to experiment with mixes of different policy elements is lacking. For example, the need for trade policy to be "neutral" in respect of import substitution as well as export orientation is expressed in policy statements but in practice, there is an almost dogmatic stress on the export-orientation of industry, treating import substitution industry as non-viable. Export industry is generously subsidised; no such treatment is extended to import substitution industry or the subsidies extended to the latter are lower than those extended to the former. No attempt is made to identify viable and promising import substitution industry with long term prospects for infant industry protection. The reasons for this attitude are ideological rather than efficiency related.

Thirdly, there is an ideological opposition to public enterprise. In spite of the fact that this instrument has been used in many a NIC in the past to establish and develop industries with long term prospects, but neglected by private sector for various reasons, the government has almost totally ignored the selective usefulness of this instrument for domestic accumulation. When necessary private capital is either not available or if available, unwilling, to undertake industrial investments of crucial value for sustained industrialization, the government must keep its options open to use the instrument of public enterprises to commence such industries; they may be transferred after maturity to the private sector on the basis of a proper assessment of assets held by such public enterprises. The fact that what is most important is the political commitment to make public enterprises work efficiently has often been ignored. Even for successful privatisation, public enterprises must be capable of showing profit potential; hence the need for real - as against mere rhetorical - emphasis on productivity improvement in public enterprises. The state and private capital must not be viewed merely as contenders for limited resources; the full range of avenues for collaboration between them has not been explored.

Fifthly, the small industry/ small enterprise focus in current policy is inadequately guided by knowledge of country situations where small enterprises have been effectively used for growth and employment promotion. In Sri Lanka various programmes are in place to promote small enterprises in general and small industry in particular but without a conscious policy of interrelationships between the big and the small through sub contracting or other methods of providing market outlets, technological guidance etc. to small firms. It is often forgotten that what is required is a viable process of capital accumulation and not a system where large numbers of small businesses are promoted, without due consideration given to market prospects and their profitable continuance.

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Sixthly, some hard re-thinking is necessary about the role of foreign aid and of innovative ways of bringing the external transactions of the country into a more stable position. If it cannot be brought to a situation of balance, then at least the deficit should be brought down to a tolerable level in the sense of being able to manage without getting deeper into foreign debt. The policy of currency depreciation has proved itself to be ineffective in carrying out this task. Various instruments other than those forming part of a typical structural adjustment/ stabilisation package are available to any government to achieve this objective.

Seventhly, economic processes and politics appear to be often pulling in different directions. A tendency can be found in many countries with developed mass political processes — Sri Lanka clearly being one such country — to increasingly replace the allocation mechanism represented by market forces with a political mechanism of allocation. Whatever its benefits (to some) in the short run, this mechanism has not been very conducive to the promotion of accumulation, growth and human development in the long run. Along with this, one often notes a lack of correspondence between argument and action, leading to the credibility of political leaders and economic managers being questioned. Often measures which require rigorous decision making and implementation are diluted by a populist approach to policy making. The characteristics of the Sri Lankan socio-political situation which brought about this situation have been enumerated earlier; the numerous social welfare policies in the country, which were their result, have had a serious impact on people's mentality, creating the expectation that the state will be paternalistic and will ensure the provision of basic needs and so on.

There are over 600,000 internally dispersed persons in refuge camps run by the state. Most of them have been there for over three years, leading a life of utter deprivation. We publish below a report prepared by INFORM, a human rights watch group in Colombo, on refugees in Trincomalee, Vavunia and Puttalam.

INFORM FIELD REPORT ON REFUGEES

Dhananjaya Tilakaratne

Trincomalee - April 22/23, 1993

Visiting Trincomalee once again brings to the surface the range of disturbing issues with regard to the internally displaced. Since June 1990, hundreds of thousands of Sri Lankans, especially rural agricultural workers, from the north and east have lived on miserly hand-outs from the state, housed in grim camps, euphemistically referred to as 'welfare centres' in official jargon.

They have been the real 'pawns' in the war game; for almost three years they have lived like nomads, with no space to call their own. As citizens of Sri Lanka, they do not enjoy the benefits of health and other welfare systems that others in the country enjoy. Children do not receive an adequate education. Families are forced to co-exist with one another in the most appalling of conditions, with no privacy, minimum sanitation and constant fear of harassment.

These Sri Lankan men and women are treated with scant respect and dignity, deprived of a means to earn their living, forced to accept beggarly hand-outs, forced to swallow their sense of self in order to survive.

There are 18,533 displaced persons living in welfare centres scattered throughout the Trincomalee area, as well as another 15,207 drawing dry rations but residing outside the camps. There are also a fair number of returnees from Tamilnadu who have been unable to return to their homes as yet.

The pressure is on, in Trincomalee, for displaced persons to return to their homes, and various resettlement projects are under way — for example in Mutur and along the north-bound coastal road up to Nilaveli. The official position is that families are entitled to receive a settling-in allowance of Rs. 2000, a grant of Rs. 500 for the purchase of cadjans for roofing, a productive enterprises grant of Rs. 4000 and a further block grant of Rs. 15,000 for re-building their homes. However, we faced many complaints that these amounts were not being paid out on schedule, with officials offering such ridiculous excuses as not having the 'pink' forms in stock and so on!

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