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OPEN ECONOMIC POLICIES AND PEASANT AGRICULTURE : TWELVE YEARS' EXPERIENCE

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Introduction

The open economic policies introduced in 1977 in Sri Lanka meant to "evolve a proper mix between social welfare and social justice and development and growth, between consumption and subsidies and savings and investment".¹ In other words the primary objective of the open economic policies was to establish an effective economy with a reasonable income distribution. Although this was the expected objective, it is important to re-evaluate the position and to examine realistically what has happened since then. It should be stated here that no economy in the world follows exactly full open or free economic policies. It is only a matter of relativeness.

After more than a decade's experience of relatively free open economic policies when compared with the pre 1977- economic policies especially in the agricultural sector in Sri Lanka many debatable points have arisen. It is argued that free trade could adversely affect agricultural production at local levels due to unreasonable competition from agricultural products from developed countries. On the other hand it is argued that unless developing countries face the world market competition there could be no comparative advantages and hence production be inefficient.

Objectives of the Paper

Specific agricultural policies under the open economy were designed to achieve the above mentioned general goals such as to increase efficiency in food production with a proper income distribution. Some of the major policies introduced in the last twelve years include trade liberalization, open market price determination, privatization, promotion of foreign capital investment, removal of subsidies, structural changes in land law, changes in income tax law etc.. The objective of this paper is to evaluate the performances of the above policies in the peasant agriculture sector of the country. Even though this paper does not discuss the impact of each of these policies separately, the focus will be on overall impact of these policies on the agricultural sector.

It should be mentioned here that the identification of the typical peasant farmer is a difficult task. Sri Lanka, which has diversified agro-ecological zones and various farming systems has different categories of peasant small farmers operating under various situations. They could be categorised under new and old irrigation schemes,

1 Ministry of Finance and Plan Implementation, (1977). Budget Speech, 1977.

practising Puranagama and chena cultivation. The wet zone villages also harbour the peasant farmers. In the Jaffna peninsula, the highly intensive cropping systems stand on its own. In addition peasant farmers in the up-country are also involved in highly intensive vegetable production.² Thus, each of these farmers is different from the other, making it difficult to identify the typical peasant farmer of Sri Lanka. Therefore, the case made in this paper may not represent a general view of the peasant agriculture sector in the country as a whole, but may pin-point the cases of only certain categories.

Not only geographical boundaries but also differences in respective agricultural systems make it difficult to identify the peasant farmer. For example, tobacco growers, sugar cane producers and animal husbandry farmers have faced completely different sets of challenges over the last twelve years. As mentioned in the objectives even though this paper attempts to analyze the experiences of mainly paddy and other field crop cultivation it does not imply the importance of the wholistic approach to the question.

Paddy Cultivation

Rice is the staple food of most Sri Lankans and it is a highly politicized commodity. Due to poor quality of varieties and processing techniques there is no effective demand for Sri Lankan rice in foreign markets. Also over the years, the price of locally produced rice has steadily increased, as compared with international market prices as observed in Table 1.

Table 1 : Ratio of Domestic Producer Prices to International Prices (%).³

Year	1978	1979	1980	1981	1982	1983	1984	1985	1986	1987
Rice	87	70	83	82	111	114	120	123	128	113
Sugar	173	161	132	137	186	200	239	251	263	244

According to Table 2, it is evident that the production of rice has increased steadily since 1977. Total production of 1,154 thousand metric tons in 1975 increased up to 2,466 thousand metric tons in 1988 which is about a 134% increase. This increase in production is mainly attributed to the use of high yielding varieties and an increase in extent cultivated. The cultivated extent has increased from 6,96

2 Gunasinghe, Newton. (1985). Peasant Agrarian Systems And Structural Transformations In Sri Lanka. In *Capital and Peasant Production*. Ed. Charles Abeysekera. Social Scientists' Association of Sri Lanka. pp. 195-230.

3 World Bank; May 27, 1988. *Sri Lanka - A break with the past : The 1987 - 90 Programme of Economic Reforms and Adjustments*.

thousand ha to 8,65 thousand ha (a 24% increase). The average yield of a hectare has risen from 2521 kg in 1977 to 3419 kg in 1988. This shows a considerable increase of 35.5% in the average yield per hectare of land.

Table 2 : Statistics on Paddy Cultivation^{4/5}

Year	Production ('000 MI)	Area Sown ('000 ha)	Yield (kg/ha)	Rice Imports ['000 MT)	Credit Granted (Rs.mil.)	Credit (Rs./ acre)*
1977	1677	828	2521	-	99	85
1978	1891	876	2613	169	448	32
1979	1917	839	2750	211	74	54
1980	2133	845	2927	185	61	33
1981	2230	877	3014	157	97	44
1982	2156	845	3260	161	128	57
1983	2484	824	3606	123	153	54
1984	2420	990	3076	26	176	38
1985	2661	882	3465	182	120	39
1986	2588	895	3500	220	190	65
1987	2128	781	3564	102	262	86
1988	2466	865	3419	189	237	58

* Deflated using Wholesale Price Index (1974 = 100)

At the same time a considerable amount of rice is also imported annually. In 1988 alone, rice imports amounted to 189 thousand metric tons. Thus coming to hasty conclusions that Sri Lanka has attained self sufficiency in rice, based on the above data and suggesting that the problems of farmers have been solved is erroneous and unjustifiable.

The paddy Marketing Board (PMB) and other governmental marketing establishments have become non competitive as a result of the open market policies. As a result their warehouses and stores are empty or have been leased out to private traders. A total of 512 thousand metric tons (31%) of paddy purchased by the PMB in 1977 declined sharply to a mere 105 thousand metric tons (4.3%) in 1988.⁶

In the open market farmers receive higher prices for paddy than the guaranteed price. But does the income of the farmer increase? To find a solution to this question it is necessary to find out the amount of money incurred on production costs and

4 Central Bank of Sri Lanka. (1977-1988). Annual Reports.

5 Central Bank of Sri Lanka, (1985). Social & Economic Statistics of Sri Lanka.

6 Central Bank of Sri Lanka. (1988). Review of the Economy, Colombo. Sri Lanka.

then consider their incomes. Even though the government has implemented a guaranteed price for rice, paddy cultivation has become an unprofitable occupation for most farmers. When compared with the 1979 prices of labour, fertilizer and agrochemicals, the same items in 1988 had risen by 378.4, 168 and 262 percent respectively.⁷ The increasing costs of input material and labour have resulted in a reduction of profit margins in paddy production.

Paddy cultivation using hired wage labour is not a profitable venture. Only by using family labour could farmers apparently do without a loss. This is because the real wage rate is not paid for family labour. Weerahewa and Abeygunawardena⁸ have shown that the profit margins for paddy production have steadily declined over the years. They also show that paddy cultivation has been unprofitable where the cost of family labour has been fully accounted for and the produce is sold under the guaranteed price scheme, for the period under investigation (Table 3).

Table 3 : Gross Margins for Paddy Production (National Average)⁹

	1978/79	1987
Guaranteed Price (Rs.)	40.00	40.00
Open Market Price (Rs.)	40.00	88.86
Cost of Production (Rs.) (including family labour)	25.80	70.05
Cost of Production (Rs.) (excluding family labour)	22.74	61.34
Gross Margin (with respect to GP and COP including family labour)	0.5504	-0.1144
Gross Margin (with respect to GP and COP excluding family labour)	0.7590	0.1411

Table 2 further indicates the amount of credit given to paddy cultivators by Institutional sources. Statistics maintained by the Central Bank of Sri Lanka¹⁰ reveal that the total amount of loans granted to the paddy farmers in 1975 was Rs. 86 million which in 1988 increased to Rs. 237 million. Deflated to 1974 prices, the loans granted per acre of paddy in 1975 was Rs. 87.00 which in 1988 fell to Rs. 58.00. Furthermore, the report also shows that the proportion of loans granted to the paddy sector, (of total loans granted) is declining. This may be due to high interest returns

7 *Ibid.*

8 Weerahewa, J. and Abeygunawardena, P. (1989). Diminishing Profit Margins of Paddy Production. Paper Presented at the 45th Annual Session of SLAAS, Colombo, 1989.

9 *Ibid.*, Weerahewa, J. and Abeygunawardena, P. (1987).

10 Central Bank of Sri Lanka. (1977-1988) Annual Reports, Colombo, Sri Lanka.

which the banks receive from loans granted to the non-agricultural sector such as industry or commerce.

From a survey conducted by Abeygunawardena at Uda Walawa in 1985, it has been found that about 80% of the farmers pay 200%-300% interest on loans sought from non-institutional sources. Most of these financial operations are however not recorded. When there is a lack of well organized financial institutions such as banks for the farmers to obtain loans they then resort to these non-institutional sources.

Most of these private money lenders are traders of the farming areas. They usually borrow money from banks and then provide high interest credit to farmers. Some government officers are also said to be involved in these lending operations. The same money lender(s) also buy(s) the produce of these farmers usually paying higher prices than that paid by the government. They could afford this because of their high interest rates on credit. However of late, under the *Praja Naya Niyamaka* System, loans are being granted to individual agents by state owned commercial banks, to be loaned out to farmers. By doing this it is expected to increase the competition among the money lenders and reduce the interest rate. Consequences of this system will have to be investigated in the future.

Although a multitude of studies have been carried out on agricultural credit problems in the country, no successful practical solution has been evolved. The farmers are blamed for failing to repay loans borrowed from banks but the farmers argue that their income is insufficient to repay the loans. However, this has led to bringing forth the private money lenders into play and paved the way for the farmers to depend on the vicious-circle of obtaining loans to repay previous loans. Therefore it seems that no beneficial results 'can be expected from any agricultural policy without restoring the stability of the farmers' financial position.

The next important problem is the intensity of competition in the paddy industry set off by the adoption of open economic policies which increasingly compel farmers (who sustain prolonged losses or continuously get very low profits) to abandon cultivation. This is the inevitable result of long run intensive competition. The first batch of these are those farmers who receive less water, are financially under privileged etc.. This situation goes against the more equity oriented policy of uplifting and helping poor farmers. Even though this may have been the ultimate aim of free economic policy the inevitable result has been the ousting of the less privileged farmers from the system.

Also one could argue that labour displacement is inevitable when the agricultural sector is developing. As a result a few efficient farmers will remain in the industry which results in increased productivity. This may be the case if the displaced farmers had other options such as to join the urban industrial labour force or be self employed. Without such alternatives it is difficult to argue that the agricultural sector is moving in the right direction.

Other Food Crops

When the economy was more closed and imports were restricted, Sri Lanka achieved a high level of production of Potatoes. The same could be said for Chillies and Red Onions. At that time most of the producers received a high price for their produce. The cultivation of *Thora Parippu* and Cowpea etc. as substitutes for imported Dhal were wide spread. This enabled the country to increase the income of the rural farming population by allowing the saved foreign exchange to go into the hands of the rural people. However such extreme policies also brought difficulties to the consumers.

After the introduction of open economic policies, these crops ceased to be profit making. In 1973, 43,102 ha were under Cowpea cultivation but in 1988 it was reduced to 24,880 ha. The picture for other crops such as Soya Beans, Chillies etc. is also the same. This means low investment or reduced investment in this sector while allowing a large sum of much needed money to be transferred abroad.

The importation of Red Onion and Bombay Onion under the open economic policy of the government caused a price slump for the products. The farmers in the north were affected most. The consumers too turned again to the old habitual buying patterns leaving substitute crops aside. The economic environment which existed before 1977 can be defined as an import substitution and an export expansion policy. However as these policies coincided with a world food crisis, and as certain regulations over essential food distribution were imposed, extremely harsh and oppressive conditions prevailed over consumers.

The private sector under the open economic policies is engaged in purchasing field crops. Table 4 presents the floor prices for subsidiary food crops from 1981 to 1988. It is clear that the floor prices have risen marginally over the past decade or so. The Paddy marketing Board and the Co-operative Wholesale Establishment buy crops at the floor prices. But most of the time these establishments have not actively participated in purchasing these crops. Crops such as Soybeans and Corn for which consumers show little interest, have been badly affected. But however the floor price scheme has resulted in significant purchases being made of Maize and Soybean in 1988. As a result, 42,608 metric tons and 1,333 metric tons of Maize and Soybean respectively were purchased in 1988.¹¹ Yet, the amount of Cowpea, Greengram, Gingelly and Kurakkan purchased remained small as in the past.

11 Central Bank of Sri Lanka. (1988) Review of the Economy, Colombo, Sri Lanka.

Table 4 : Floor Prices of Subsidiary Food Crops (Rs.)¹²

	1981	1982	1983	1984	1985	1986	1987	1988
Maize	2.30	-	3.00	3.00	4.00	4.00	4.00	4.00
Kurakkan	-	-	2.75	2.75	4.50	7.50	4.50	4.50
Ground Nut	6.00	-	6.00	6.00	6.25	7.09	7.00	7.00
Soybean	5.50	-	6.00	6.00	6.00	7.00	7.00	7.00
Gingelly	7.00	-	6.00	6.00	7.00	9.00		
Black							7.50	7.50
White							9.00	9.00
Cowpea	5.50	-	5.50	5.50	5.50	8.50	8.50	8.50
Greengram	6.60	-	7.50	7.50	7.50	10.00	10.00	10.00
Blackgram	4.00	-	4.50	4.50	4.50	4.00	6.00	6.00

Usually, the producer prices for these crops are lower than the floor prices. This is a different situation from that with regard to paddy. Also most of the private dealers are not interested in purchasing these crops. However, consumers pay much higher prices than floor prices. This shows that under the open economic policy, neither the producer nor the consumer reap any benefits. Apparently the middlemen operating in the open market earn the profits.

Soyabean and Maize are mostly used for animal feed. Establishments such as government owned Oils and Fats Corporation or privately owned Grain Elevators are the effective buyers for Soyabean and Corn. In recent years (strictly abiding to the policy of the government which force corporations to make profits) the Oils and Fats Corporation has started importing all these crops from abroad at a lower price. In 1986 alone, Rs. 4113.1 million worth of subsidiary crops were imported to Sri Lanka. From 1984 to 1986 the volume of imports have risen by 700%.¹³

If at least partial control was applied to this fully liberalized policy of imports, millions of rupees could have been saved from being transferred out of the country. In the final analysis, the extremist application of open market economic policies have made some subsidiary crops which grew here well, to be imported, which has adversely affected the producer as well as the consumers. This policy has only served those who were involved in middleman operations and speculation fields.

Abeyratne¹⁴ states that while the production of some of the subsidiary crops grown within the country has been affected with the liberalized trade policies no

¹² *Ibid.*, Central Bank of Sri Lanka. (1988).

¹³ The Island. (05/05/1987).

¹⁴ Abeyratne, Fredrick. (1989) Trade Liberalization Policies And Their Impact On The Subsidiary Food Crop Sector. Paper Presented at the 45th Annual Session of SLAAS, Colombo, Sri Lanka, 1989.

impact has been made on other crops such as Greengram. Tables 5 and 6 illustrate production pattern and extent of cultivation of some of the subsidiary food crops over the past twelve years. Even though the production has increased for some crops such as Soybean, Cowpea and Greengram, the number of farmers involved in cultivation could have declined. Gunasinghe¹⁵ argues that increased production and reduction in extent cultivated would have contributed towards increasing pauperization in the rural society. Chena cultivators, marginal land owners and the least advantaged groups(s) would have abandoned growing OFC's while newly commercialized farmers would have increased their production.

Table 5 : Production of Subsidiary Food Crops ('000 MT)^{16/17}

	1976	1978	1980	1982	1984	1986	1988
Maize	31.19	33.80	31.36	38.67	39.10	40.69	70.57
Kurakkan	15.51	14.69	6.09	11.69	7.15	6.57	7.86
Ground Nut	6.10	7.50	14.10	14.70	6.50	11.07	11.91
Soybean	0.70	2.30	1.10	10.10	7.90	7.55	9.89
Gingelly	8.60	10.00	23.60	21.50	2.50	8.10	8.99
Cowpea	12.00	22.60	23.50	35.20	22.40	20.26	18.07
Greengram	5.10	8.30	12.90	48.40	17.50	17.60	23.10
Blackgram	2.48	8.71	5.51	8.41	5.43	7.52	13.16

Table 6 : Cultivated Extent of Subsidiary Food Crops ('000 ha)^{18/19}

	1976	1978	1980	1982	1984	1986	1988
Maize	30402	28631	24364	34140	45414	-	50429
Kurakkan	19845	17651	8032	14002	16878	11417	11081
Ground Nut	6729	8282	9541	14357	7261	10043	12535
Soybean	721	1955	1092	7656	11818	6308	8341
Gingelly	19010	16984	21518	32196	4865	1532	17547
Cowpea	19244	27577	25557	32800	31321	24718	24880
Greengram	8370	12199	14206	20954	29568	24187	33465
Blackgram	5093	14066	8361	9530	33362	10117	18218

15 Gunasinghe, Newton. (1986). Open Economic Policy and Peasant Production. In *Upanathi*, i(i). January 1986 pp. 37-68.

16 *Ibid.*, Central Bank of Sri Lanka. (1988).

17 *Ibid.*, Central Bank of Sri Lanka (1977-1988).

18 Central Bank of Sri Lanka. (1976-1988) Review of the Economy.

19 Central Bank of Sri Lanka. (1976-1988) Annual Reports.

This sphere of production has achieved its growth through increased use of fertilizers and other agro-chemicals, but not through developed technology. With increasing price trends in these inputs, it is obvious that the affluent farmers who operate at a commercial level, are the category who achieve higher production levels through increased use of inputs. The least advantaged group(s) of peasant farmers who could not afford the high costs of inputs could be displaced from the industry. Even though a growth in the production of some subsidiary food crops could be expected, it poses a question in a social aspect. Have these displaced group of cultivators been absorbed into another field of production or have they also joined the unsatisfied cadre of unemployed people?

It is observed that rural unemployment, farm mechanization and real wages in rural agricultural sector are increasing in Sri Lanka (Abeygunawardena and Premalal, forthcoming). When labour utilization in the paddy industry is considered, the number of man days required per acre of irrigated paddy has remained more or less constant in the recent past (Table 7). Even though the land under paddy cultivation has increased, has it been able to absorb an adequate portion of the increased population? Abeysekera²⁰ puts forward the fact that paddy farming has not increased its labour use intensity during the last 2-3 decades, in spite of increased paddy production. The increased labour requirement arising out of increased production could have been compensated by high mechanization of the industry. He also argues that the potential to increase labour utilization in the rural sector not being harnessed, has contributed largely to the rural unemployment problem. But the wages of the rural sector are on par with or even exceed those of the urban wage earners. This raises the question as to how this situation has arisen, especially as the rural labour force have no organized trade unions etc..

Weerahewa and Abeygunawardena²¹ observe that only 15-20% of the total cost of production of paddy is spent on fertilizers and agrochemicals. Further, it is found that 70% of the total cost is spent on labour, both family labour and hired labour. Based on these figures they argue that international dependency is not a major factor among paddy production activities. This poses the question; If this is the case, what would have happened to the surplus generated in the paddy sector?

20 Abeysekera, W.A.T. (1989). *Labour Use in Paddy Cultivation In Sri Lanka : Emerging Patterns And Implications For Rural Employment*. Paper Presented At The 45th Annual Session of SLAAS, Colombo, Sri Lanka, 1989.

21 *Cost of Cultivation Reports*. (1982/83 - 1987) Dept. of Agriculture, Peradeniya.

Table 7 : Man days per Acre for Irrigated Paddy, 1982-87²²

Average (a)	82/83 Maha	83 Yala	83/84 Maha	84 Yala	84/85 Maha	85 Yala	85/86 Maha	86 Yala	86/87 Maha	87 Yala
N.A	56.01	53.61	53.09	53.94	53.90	55.18	54.45	55.33	56.99	53.58
DZA	46.33	47.83	42.38	44.18	44.18	45.00	46.25	45.47	45.98	45.45
WZA	68.94	67.07	67.90	70.07	66.71	67.53	63.34	63.84	69.24	62.97

a - N.A - National Average

DZA - Dry Zone Average

WZA - Wet Zone Average

22 *Ibid.*, Weerahewa and Abeygunawardena, (1989).

As De Silva,²³ Gunasinghe²⁴ and many others argue capital transformation in the peasant economy is not taking place as in the production sector due to many reasons. Merchant capital is more profitable and therefore the surplus generated is invested in either rural or urban areas of the country (or even transferred abroad) to get quick and easy profits such as from trade and service oriented ventures.

As Gunawardena²⁵ points out, this is popular among the radical economists and social scientists in the country. But we would like to raise the question as to whether this is enough to understand or explain the peasant sector socio-economic changes taking place in the country. With the open economic policies certainly new dynamism was introduced to the peasant sector. International capital is being transferred for sugarcane, milk processing and collection and several other export oriented agricultural ventures. The attitudes of the rural farmers are also changing.

Income distribution aspects must also be considered in this analysis. The gap between high income groups and low income groups is increasing (Gini Coefficient is decreasing) especially among the rural sector of the country.²⁶ This should also have increased other social problems such as increase in illiteracy. Therefore, it is important to investigate these issues more closely to develop policies for better understanding between economic efficiency and equity especially in the peasant agricultural sector of the country.

Conclusion

Although, Sri Lanka has adopted free economic policies most of the countries in the world including the developed countries do not appear as following such policies. High prices for sugar is maintained by the US government to protect domestic sugar production. In the same way Japan maintains very high prices for rice in the country than the prevailing world market prices. The Japanese government with these measures is protecting its farmers. Most of the European countries including UK, via EEC, allow free competition among its members while protecting their economies from outside competitors.

It is a known fact that the Sri Lankan farmer employs a low level of technology and invests less capital in their agricultural activities. Therefore it cannot face healthy competition against the modern production methods practised by the advanced countries. This situation is also applicable to the undeveloped crops in advanced countries too. To protect farmers involved in growing such crops, dif-

23 De Silva, S.B.D. (1982). *The Political Economy of Underdevelopment*, Routledge and Kegan Paul. plc., London.

24 *Ibid.*, Gunasinghe, Newton, (1986).

25 Gunawardena, L. (1990). Class Relations in Agriculture. In Lanka Guardian, 12(22).

26 Dept. of Census and Statistics. (1988).

ferent tax systems and quota systems are applied by the governments in those countries.

As an agricultural country with millions of peasant farmers Sri Lanka by succumbing its economy to the free play of the market forces dominated by countries with advanced technology in the run, has actually thrown its agriculture into a precipice. It is clear that paddy farmers are faced with problems of diminishing profit margins, forcing some farmers to leave the paddy sector. Other food crop producers are faced with serious problems of marketing their products. It is extremely difficult for local producers to adjust and face intensive competition from cheap imports. However, the open economic policies have brought the required dynamism to the peasant agriculture sector in the country.

In general, besides the overall macroeconomic instability increasing unemployment and inflation etc., the rural economy is faced with more problems such as high income disparities, increasing illiteracy, changes in value systems etc.. The pauperization process is also taking place at a faster rate. Therefore, unless more equity oriented policies are implemented and new opportunities for unemployed and underemployed people in the rural sector are provided more unpleasant events as had already occurred are inevitable. Therefore without analyzing complete benefits and costs we feel that it may be difficult to conclude that the open economic policies help the capitalist development process and hence it should always be welcomed by a country. In other words capitalist development should bring not only efficiency but also equity to society to claim that this policy is acceptable for the development of a country.