

PREMADASA POLICIES: ALMOST DOING THE IMPOSSIBLE

Economic Review

What are your impressions of the state of the Sri Lankan economy and the current economic policies?

Neville Jayaweera

First of all, I would like to say that any kind of discussion on the state of the economy has to be placed in the context of 1989. And in the context also of the economy we had in the country in the period 77 to 89.

If we look at the situation that was prevalent in this country in 1989 any state of the economy must be an improvement! Because basically what we had by about August - September 1989 was virtual disintegration not only of the economy but of the state apparatus and civil society itself. So any change thereafter must be in an upward direction. I think between June and August we had a terrible situation. Our principal areas of production were in total decline. Partly through the low performance of workers - they were not allowed to work, they were threatened - and partly through the deliberate systematic destruction of factories. So the principal sectors of the economy had gone into serious decline.

The tourist traffic has been reduced to zero. The wholesale and retail trade was reduced to almost nothing. The export economy has slowed down. The

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other day President Premadasa said that in August, the Treasury had something like 5 million Rupees. I was a bit surprised because that would be just about an hour's expenditure of the country. However that was a measure of the state in which the economy was.

The point I would like to make first is that there has been a remarkable demonstration of the capacity of our economy to revive. There are many implications of that. One is that there is a fundamental resilience in the economy. That I think is due to something that happened since 1977, which is the depletion of the state sector. With increasing privatisation, with the increasing dispersal of the economy to the private sector, it lost its monolithic character and it could stand up to the kind of civil turmoil to which it was subjected in 1989 with greater resilience and a capacity to revive. So the revival of the economy - one can almost say it's bouncing back - in terms of production, is something to be noted.

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The other significant thing I would like to mention is the revival of tourism. It's bound to have a great impact on the

economy not only in terms of foreign exchange earnings, but in terms of cranking up the service sector, the tertiary sector - the supply of retail commodities to a whole network of hotels along the sea coast.

In terms of President Premadasa's policies, what strikes me is that for the first time in the Third World we have an attempt of almost doing the impossible.

Which is, on the one hand there is almost elementary capitalism, complete privatisation - no holds barred capitalism, withdrawal of subsidies for whatsoever reasons, may be at the dictat of the IMF. But still it is a total capitalist, monetarist recipe. Now this follows more or less the Jayawardene model, except that it is more so. It's closer to the IMF. The Welfare system is being systematically dismembered. That is a significant fact.

At the same time you have President Premadasa making a direct assault on poverty. Nor-

mally, the adoption of the extreme capitalism I just referred to, is accompanied by trickle down. I don't know whether

President Premadasa astutely conceived this in those terms, but quite obviously he recognises that the very survival of capitalism, the form in which it sought to be practiced here, requires a stable social system. The great error of the Jayawardena era was that capital formation was the most significant thing of capitalism at that time and the benefits of growth did not percolate down to larger segments of society. So that we has a ridiculous situation of something like 7 million people out of a total population of 16 million on food stamps, which meant basically that half the population was not in production. This is hardly the kind of condition under which capitalism can survive. So that was one of the reasons for the social upheavals of the last two years.

Through the Janasaviya, President Premadasa is trying to reverse that. There's a direct assault on poverty which is not a dole, which is not just common — or — garden welfare. I think there are lots of political concepts, social concepts tied to the Janasaviya. It's not merely placing cash or purchasing power in the hands of people. It's an attempt to engineer and manage the village economy. I think that is very significant. Without that the pure capitalism of 77 to 89 — even if repeated in it's purest form — just cannot survive. And the reason for this is the reason why it has not survived in anywhere in the world. We will again be driven to adopt the models of Chile and the Philippines and wherever else the IMF model has been tried.

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economic experiment is that we are doing something outside the IMF line. So that to me is what is most significant about the economy today.

Then of course there is the phenomenon of the rising cost of living. Theoretically it derives principally from the

seem to think that it may not work out that way. However, that is a mighty problem area.

To come back to the rising cost of living, unless President Premadasa can cope with that, then we are back to square one because you can contain discontent for one year, two years, three years, but not for very

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withdrawal of the fertilizer subsidy. I have gone into this. Apparently the withdrawal of the subsidy per se is not going to make all that much of an impact on the question of poverty. Firstly because there was over application of fertilizer. Secondly, those who need not have subsidies were benefitting from it. Thirdly, in fact there might be an increase of production through more rational usage of fertilizer. On the other hand I've heard the theory that the one segment of the Sri Lankan economy which has maintained a consistent growth trajectory since 1943 is the agricultural sector; that through a whole system of fiscal policies and subsidy policies, marketing policies, intensive and extensive land policies we have maintained a consistent growth in the agricultural sector. Now there is a fear that this growth graph will take a sudden dip. That is theoretical. I do not know to what extent it might happen. There was one paper that the ARTI did very early when the prospects of the withdrawal of the fertilizer subsidy was in the offing which was very negative. Now I think they have ammended their policy, their perceptions. They

much longer. So unless the cost of living can be contained you'll have social upheavals on a massive scale accompanied either by a change of Government which in my opinion would be disastrous or an increase of repression which would be unfortunate. So something has to happen in that area.

E.R A recent Soviet Parliamentary delegation when asked to comment on the state of our economy said that they are impressed by the quality of our products but mentioned working conditions, low wages and environment as problem areas. I would like to add corruption to this list. What do you say about these problems?

N.J.Well, you are talking in terms of the other factors which impact on production. I think the basic problem here is that the Premadasa Government is telescoping into one major governmental programme, what several other governments would have probably taken two or three decades to undertake. For instance let us take the whole concept of devolution. Devolution in the long run is bound to step up production. And I think capitalist economy

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requires devolution because it can't work within constraints. But just at this particular moment, the simple structural and management problems of devolution are enormous. For one thing devolution involves dismantling of or transforming a system of administration that has got entrenched for 150 years. Attitudes have to be changed and habits have to be changed. Simple rules and regulations have to change. New

pening for the first time ever. Can one man do this?

Earlier, before the provincial council system was started, somehow the reality of corruption was concentrated in Colombo. In the provinces it was the talk of corruption or the perceptions of corruption. People for the most time did not see it in concrete form. Corruption was something that happened in the faraway distant

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traditions have to be built up. All that while economic performances have also got to be maintained. When you do this kind of changes, the immediate impact is the slowing down of performance. Because people are engaged in getting their offices in order, getting their infrastructure in place, getting used to pomp and pageantry of office.

Then there's the fundamental question about the competence of the administration. The administration itself has been seriously eroded by corruption. And President Premadasa recognises that. That's why he has declared war on incompetence and corruption. Now declaring war is one thing. But going to battle and winning the war is another. I think President Premadasa realises this, but how to deliver is the problem. It seems to me that that whole weight of management and not merely governance, is on the President — he is not just governing the country, he is managing the country — which is hap-

pening for the first time ever. Can one man do this?

Colombo. But now with the disposal of resources and the opportunity for patronage given to the 8 or 9 capitals, unless the Chief Minister and their Cabinet and their Secretaries are men of extraordinary integrity anything that they do wrong or lacking in integrity is going to be seen in the raw and in the naked by the people. So this is a two edged sword. If the people see high class performances and high integrity on the part of the provincial administration, to that extent there could be an enhancement of morale. But if there is abuse and misuse of vehicles and the awarding of contracts to catchers and the disbursement of patronage to favourites, as it likely to happen, that is going to be a tremendous source of demoralisation.

I think that this has already happened. People who are in Colombo do not know to what extent there is resentment about the way in which vehicles are being used. Now the people don't merely talk about these

things. They see it at first hand. In Moneragala for instance where, I have been, people have to walk two, three miles to get a 'kalagediya' of water. It is still as bad as that in certain areas. And they see an M.P. in his Pajero loaded with his family going to Kataragama or going to see animals in Yala. This, I think, is a terrible thing. So, if this happens once in a broad area, then corruption is going to become a very very serious matter. I think the President perceives this. That's why he is getting down to brass tacks, asking for the withdrawal of vehicles etc. But you see my point is that one man can't do this. I think there's a lack of consciousness in the country. As long as President Premadasa wants to do this, it will appear as if it is the fight of one man. In how many places can one Premadasa be?

So I think the government is up against a major problem. There are so many correct things the President has done like passing the legislation to enable you and me to challenge any public officer etc.

E.R. As an experienced Administrator, what do you think is the solution?

N. J. This should have been done a long time ago actually, but now I can't think of any administrative or legal device by which it can be done. I think education is terribly important; making examples of is terribly important; not allowing any exceptions is terribly important. I think unless a permanent Commission, as recommended by the Commission on Youth — of sitting judges, a continuous commission is appointed and it is given the

right to bring to book any person, this problem cannot be handled.

Let's face it. In the West this consciousness did not come in a matter of years. It took centuries and it has still not come. It didn't matter though because they had space in which to go. It didn't matter for the United States — the whole American system is oiled with corruption. But that's all right because they are not confronted with a problem of scarce resources, with a problem of unlimited demand.

A Cabinet Minister told me that there are two factors in the growth of Sri Lankan economy. One is the 'irisiya' factor the other is the 'thantha' factor. It's the 'thanha' factor which leads to growth. If this factor is unmitigated then you have a galloping 'irisiya' factor. This is just social discontent. It will overthrow the 'thanha' factor. But on the other hand, it is the 'irisiya' factor which acts as propulsion to growth. That

E.R. Various alternate solutions to our economic are being proposed today. They vary from the Thatcherite Model to the Scandinavian model. There is also a lot of talk about re-establishing a closed economy. What is your opinion on this?

N.J. Well the first thing about a theoretical model is that the sooner we stop trying to work towards a theoretical model the better. We had done this in the past. I don't think the results were very positive. Every social formation is a unique one. And we need to develop an economy which is uniquely adopted to the particular socio-political historic formation we get in Sri Lanka. Having said that I think that to return to what you called the closed economy would be probably only slightly better than death itself. Because for one thing theoretically it hasn't worked anywhere. In fact the problems of today are mostly the results of 15 years of more or less

we put in place to enable us to unbind these productive forces? That is the question. I'm not saying that we don't require aid. We require aid. But there is an upper limit to both the giving of aid and the utilisation of aid. One of the big problems of Sri Lanka is the underutilisation of aid and that again has to do with the inefficiency of the system.

So I think we have to abandon some of our sacred cows. One is the possibility of rapid growth or trying to emulate the NIC countries or raising the standard of living comparable to X, Y or Z. I don't think that we are going to attain those fantasy levels. I think we should go for modest targets, modest growth trajectories. I think basically we are on the correct line at the moment. I would support the present model which is capitalist growth on the one side and even inviting the multinationals (Even to run riot. I'm sorry to use this word). At least it soaks up unemployment to a point, it injects a certain amount of technology, it brings in a certain amount of capital, it creates markets and perhaps after the multinationals have packed up, we might be able to keep going. We can't afford the luxury of nationalist emotions, chauvinism etc. The fact of the matter is the consciousness of the people is so consumer oriented. You can't dampen it now by having a closed economy. If you try to do that you'll have an explosion in this country much sooner than you would if you have an unbridled capitalism of multinationals.

So I wouldn't go for hard theoretical models. I would say develop something that is peculiar

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is the incentive. So how to balance these two factors is the problem. I think that is a very floksy way of communicating a very profound truth concerning the economy.

I think at the moment the 'thanha' factor is running wild and correspondingly the 'irisiya' factor. How to bring them into equilibrium is the million dollar question that the President will have to answer.

closed economy, of which 7 years was a total closed economy. So I don't think that's the solution.

The principal question is to what extent we can unbind our productive forces; the limits to which we can capitalise assets in terms of borrowings, in terms of savings. The greatest assets we have are the human productive forces. What are the devices, the political formations

iar to Sri Lanka to meet the situation in this country.

E.R. What would this amount to in practical terms?

N.J. One element is a massive investment sector open to foreign capital which should produce rapid growth. The other is not depending on the trickle down for the disbursements of the social product but sustaining a direct assault on poverty through programmes like Janasaviya. I don't know whether the Janasaviya can deliver the goods. But you certainly need people based programmes at that level. I think it's also important because it has an impact on consciousness – a concept of self reliance, a concept of what cannot be done and what can be done. Those are the real fundamental problems, not just the lack of a shirt on your back or the lack of a Honda cycle.

E.R. Irrationality in all things is a major problem we have to face today and economic thinking is no exception. How can this problem be tackled? What is the role of media and other institutions in this?

N.J. You are talking about the lack of rationality among individual politicians, the way they respond to economic problems. That has been a problem of the country ever since we started having democracy of universal franchise. That is called populism. There is consistently the impulse to do things that are likely to make you popular. That is another word for irrationality for the nature of life is such that rationality and popularity rarely go together! And at some point we have to face these contradictions.

Here the question of education, of consciousness is very important. This can be done at various levels. For instance if the politicians stop telling the people that we are going to bring down prices rapidly, if we start explaining to them the mechanism of prices, that if you want the cake somebody has to bake it, that would be a starting point. We have to have straightforward honesty from politicians. Education is important at the level of mass media and the level of school.

Another thing sectarianism. It's terrible. Not even the most lacerated horrendous experience of last year seemed to have made a lot of difference to the small time politician whose only ambition seems to be to oust the government and to put himself for herself in power. When you ask them what they are going to do when they come into power, they say that they'll look after it. So there has to be a new political consciousness. I think we have to have a period of depoliticization – not in the sense that we must cease to discuss political problems. On the contrary we must start discussing political problems at a more rational intelligent level. Not in terms of the SLFP vs. UNP which is very juvenile, which is very immature.

Then there is the need of education at the level of media. I think a lot can be done at this level. I'm not asking for mass media control. On the otherhand we need to have a very serious look at our media. The President has said that he's going to do that. But it needs a very comprehensive and deeply conceptual thinking before you operationalize it.

We must remember that no country in the world achieved development, let alone growth, without a period of tremendous sacrifice – understood in Malthusian terms like in Germany, Japan and the Soviet Union or understood in terms of a period of serious repression like in Korea, Taiwan and the other NIC countries. But the nature of our populism has been such for 40 years – that people expect everything for nothing. At some point this has got to change. That is the consciousness I'm talking about. It needs an elaborate programme of education.

I must say that there are Sinhala journals I have read which gives encouragement. But there are other Sinhala journals which are just polemical. We have this great inbred capacity for polemics. We are a nation of great polemicist. Even if we starve to death we would still win a argument! We will establish from theoretical first premises that we are right even when we are being hacked to death!

Overview...

excerpts from some of the best articles published in the magazine from its inception. Due to lack of space we had to limit this to excerpts from articles by Abraham Kovoov, Ranjit Gunawardene, Warnasena Rasaputram, Ernest Mitchent and T S Roy dealing with issues as diverse as economic development and superstitious beliefs, banking and national consciousness. We also have a special contribution made by Hector Abhayawardene who as the Chairman of the People's Bank initiated this, as a community service project in 1975.

T. G.