

## Economic Review

How do you perceive the current state of the economy and what are the alternatives you and the Liberal party can offer?

**Chanaka Amaratunga** —First of all I must say that I'm not an economist and my economics are those of a layman. That having said I must say that as far as I can make out the situation is not good at all. There's an inflationary spiral, a very bad balance of payment situation. There doesn't seem to be any clear direction in which the economy is going. Partially it's because the present government as opposed to the last doesn't even have some degree of economic coherence and some kind of adherence to economic principles. By that I mean the 1977-1988 government. Even their policy was rather incoherent. We have been quite critical of that government too for this reason.

The Liberal Party has always been unusual in this country because it has always opposed the consensus that seem to have developed since the 1960's, which made socialism the dominant trend. Though the Left and some sections of the SLFP always 'abused' the UNP for being a capitalist party in fact, the UNP have been quite apologetic about moving towards a full fledged market economic system. I would say that the UNP has dismantled only about 10% of the state sector built by the left and the SLFP governments.

The Liberal Party's attitude is that the economics of the SLFP and the Left should be rejected categorically. We feel that all experiments with

# THE OPPOSITION LOOKING FORWARD TO THE PAST

—Chanaka Amaratunga

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socialism, in so far as the state intervention in the economy and the regulatory framework is concerned, has been a total failure. I'm not talking of the Welfare state. This we strongly support. But introducing nationalism and other mechanisms of control in our opinion has been a failure. So we would like to see a much more market oriented economy. Liberal Party is the only party in this country, which always said in it's criticisms of the UNP's open economy, that it's not open enough. We would like it to be a genuinely open economy rather than the way it's now. Because as Ronnie de Mel said in his penultimate budget speech 60% of the resources of the country remains in the hands of the state.

Roy Jenkins who was once the Labour Chancellor of the Exchequer (now he is the head of the Liberals in the House of Lords) said, that if the state sector in an economy exceeds 40%, then such a society cannot be a free society. We believe this. We see a close relationship between the advance of the authoritarian state and the advance of the state control of the economy. This resulted in the decline of the liberal democratic process of this country.

We believe that the government from 1965-70 was the last truly Liberal democratic government. The two subsequent governments trampled on people's rights through constitutional manipulation, control of media, introducing thuggery and violence in to the political process. We believe that this was possible and that in fact this became inevitable because the state became such a powerful actor in the social system.

In a Third World country like ours, we don't have the restraints or the traditions of a neutral state apparatus and administration. Along with the advance of the state control we see a decline of the neutral civil service and a partisan politicization of the administrative service. Therefore the distinction between the state, the government and the ruling party appears to have almost entirely disappeared. Even professional civil servants often seem to think that they should be the servants of the ruling party. The trade union arm of the ruling is used to restrict the freedom of trade unions to operate.

E.R. After 1977 the economy was opened up, a certain amount of privatisation took place but there was no corresponding

political erosion liberalisation. In fact we witnessed the further of the liberal democratic process. How do you explain this?

C.A. The opening up after 1977 has been very much under the direction of the state. Yes some of the controls have been removed. But what we have created is a system of capitalism where a lot of private entrepreneurs and businessmen are dependent on state patronage for contracts and so on. A lot of business that has developed in the post 1977 period is contract business providing supplies for state enterprises – even in the case of exports it's a matter of getting export licences and therefore knowing the right person to get your application approved. Again the regulatory framework is being used in a partisan way. So the business class that has emerged after 1977 is a class that is dependent on the good will of the ruling party for its profits and survival. That's why it has become possible for authoritarianism and the undermining of the old process to become even greater now than it was from 70-77 period.

The other point is that when you start a process of undermining institutions, that process gains a dynamic of its own and it just goes on even if the conditions under which that happen are to some degree (and it's only marginal) reduced. It's very difficult to recreate the credibility of those institutions without the political will.

E.R. But in the NIC countries economic liberalisation and growth went hand in hand with political repression and authoritarianism.

C.A. I think we are looking too much at these East Asian countries. I agree that in these economic development took place in a context of political authoritarianism. But the reason for their economic development was more political than economic. Many of those countries like South Korea and Taiwan, and to some degree even Indonesia prospered because at the time in which they were going into economic

thus their was a lot of corruption. You found a greater opening up of the economies following the collapse of the right wing dictatorships in most of these countries. The kind of right wing economic policies that these countries followed before were nevertheless highly controlled ones. And they were not very successful. Now there is a tendency to take hard decisions, to open up more, while at the same time democratizing.

*I think there should be a very strongly developed welfare service system. The free education and free health systems should go on. A system of subsidised public transportation, while allowing competition from private transporters, should be maintained. And when our economic basis is more viable to sustain it, we should even build a system of unemployment benefits and social security like in some of the Western European countries.*

development they served the strategic interests of the Western Bloc. It was a time when anti communism was a very hysterical issue and the Western countries particularly the US was obsessed with that. Therefore they felt that propping up any right wing regime against what they perceived as the communist threat was vital – particularly in those areas. So there was a great deal of dumping of investment into those countries to make them show pieces, successes against communism. Therefore the economies grew independent of the political set up. But I would say it's an artificial phenomena.

Latin America I would say is a better example. When right wing authoritarian regimes tried to introduce liberalised economies, they found themselves running into enormous difficulties because they had at the same time a certain amount of regulations which were abused.

The same thing you can see in the Philippines. One of the first things that the Aquino government did was in fact to privatise some sections of the economy which had remained under state control even under Marcos and to reduce the amount of state intervention in the economy. The Marcos regime had thought it convenient to maintain a higher degree of state control than necessary to cover up it's own corruption.

E.R. There's a theory that European countries and Japan had regulated economies and protectionist markets in the initial stages and they became economically developed due to those factors and not because they followed liberal economic policies. And also that this development was made possible because of the surplus extracted from the colonies.

C.A. I don't think there's any economy in the world that is completely open, in the sense,

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with no regulations whatsoever. So I'd like to make clear that we are speaking relatively. I too certainly would not argue that there should be no regulations whatsoever. It's a matter of degree. The amount of regulations we have even now is greatly in excess of what it should be.

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Today there are some studies which argue – not that I agree entirely with them – that the colonial experience in fact was a drain on the economies of the so called mother countries. That the colonies retarded the development of Britain in a number of ways. The comparison is made with Germany which had very few colonies.

Anyway I find it quite amazing that people don't ask the opposite questions – where has socialism produced any kind of economic development that is significant. I was at a Congress of the Liberal International in October last year where we had all the main political forces from Eastern Europe. They were much more robust in defending a market economy than the people from Western Europe.

E.R. I can think of a number of areas in which state regulation would be necessary. For example the building of a welfare safety net, measures to protect consumers like anti monopoly and anti trust legislations etc.

C.A. I would certainly support the restrictions on the market that you mentioned. I think

there should be a very strongly developed welfare service system. The free education and free health systems should go on. A system of subsidised public transportation, while allowing competition from private transporters, should be maintained. And when our economic basis is more viable to sustain

it, we should even build a system of unemployment benefits and social security like in some of the Western European countries.

Consumer protection is also important. There should be some form of anti monopoly regulations. There should be intervention in terms of maintaining standards of industrial and other products and to protect the environment – this is something we, in Sri Lanka, are not paying enough attention to – both the state and the private sector.

*There's very close nexus between the state control of the economy and the gradual closing of the democratic process.*

Then a proper maintenance of the rights of the trade unions. We have always opposed the UNP's attitude of suggesting that if you support a liberal market economy you should be opposed to the rights of the workers. We feel that there should be strong legislation that safeguard union rights. Things like the trade Essential Services Act should be repealed. For example compensation should be paid to the 1980 strikers who

were dismissed. There should be proper methods by which people can appeal against the abuses. We should also have legislation on wages and benefits etc. These are all areas in which the state should intervene.

But when all that kind of intervention is done we can confine it to a very small area of the economy. Well I would say that we are even willing to tolerate 40% of the resources being in the hands of the state. But it cannot be more than that. Therefore we need to privatise a lot more of the economy that remains in the hands of the state now. The state is running ventures which quite honestly the state has no business to be running – from providing buriyani packets to selling bathroom fit-

I think there are so many areas like this which can be privatised without any problem at all.

We are opposed to any state involvement in the media. The Lake House group should be privatised and also at least one of the T.V. channels. Because of the problem of resource allo-

cation and maintaining a certain degree of fairness we support the state having a state owned television and broadcasting system to supplement private organizations. But that too should be more independently run.

E.R. Mick Moore in a recent article in the Sunday Island said that in Sri Lanka it's impossible to talk about capitalism and capitalist development because

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socialism is very popular among the people.

value systems etc. That's why you had socialism being the only

*This approach of indigenous nationalism to politics has been a very regressive, very limiting approach. And I don't think it works. The fact that political concepts have been developed in places other than Sri Lanka doesn't deny their validity. We shouldn't adopt these concepts without any amendments, uncritically.*

We've got used to looking to the state as the solver of our problem, There is a tremendous culture in this country of looking to the state to solve economic problems. But this is something the politicians have created. You can't expect the people not to react to a situation that they have become used to. But you talk to anyone who was a member of parliament prior to 1960, you ask him how many people came to him to get a job.

The role of the MP has been totally transformed as the state intervention in the economy grew. If the government adopts a much more determined policy of shifting the emphasis back to the private sector, then the people too will understand that they don't have to go to politicians to get all their work done and I think they will welcome it.

As for the terminology, and every body calling themselves socialist apart from the Liberals - this is the result of the peculiar intellectual environment we had in this country. There was a dominance of Left intellectuals over those who were actually interested in political ideas. And the rest was simply too lazy to think about political concepts. In this country, the right - the UNP type politician - bar a very few - were the kind of people who claimed that they were pragmatists who have no ideology or 'ism'. It's the Left that actually dominated the political economy, trying to suggest new ideas, analyse society, present

political idea that was available. Nobody else articulated an alternative political ideology clearly.

You will see this dying, today. Even globally the situation is changing so much. I must say that global changes don't appear still to have very much influence in this country. I'm fascinated by the fact that the SLFP and the opposition combine that seems to be developing is harking back towards more left wing positions and they seem entirely oblivious of the global changes. I think it's a case of looking forward to the past.

The only person who ideologically tried to present an alternative vision is Dudley Senanayake. I feel that he's a very much neglected political thinker. This was because there has not been an intellectual tradition which was non-socialist.

Also there has not been an intellectual tradition which was non nationalist. So in the post 56 period we had this whole glorification of which is perceived to be a genuine Sri Lankan political culture, a genuine Sri Lankan identity and so on. I agree with the left on this issue. This approach of indigenous nationalism to politics has been a very regressive, very limiting approach. And I don't think it works. The fact that political concepts have been developed in places other than Sri Lanka doesn't deny their validity. We shouldn't adopt these concepts without any amendments, uncritically. But

fundamentals remain fundamentals whether you are a Sri Lankan or American or Chinese. It doesn't really matter where you come from and what your cultural background is.

E.R. But the experience of a number of Third World countries have been that however much you liberalise it only results in a system of crony capitalism.

C.A. Not being an economist I can't tell authoritatively whether that is so. But my own inclination is that this is not correct. The reason that we have had this type of economic development is because we never really allowed a proper entrepreneurial class to develop. During the colonial period it was because the economy remained dominated by external elements so most of the investment and the dynamics to the economy came from the investment of the British people. Therefore a proper entrepreneurial class didn't emerge. Afterwards such a class didn't develop because there was a lot of state intervention, right from the start. And also there was no consensus on economic development.

Even now this prospect doesn't seem all that immediate because there's so much political instability and also because the regulatory framework has not yet been removed. I have spoken to a number of leading figures in the private sector who complain that it is still so very difficult to overcome restrictions, regulations, political interference etc. So they take the easy way out and go in for very short term enterprises. I think we need to give a clear signal that we are not trying to restrict people. And then we'll see.