

CAPITALIST DEVELOPMENT IN SRI LANKA — A PERIODISATION

Newton Gunasinghe

Dr. Newton Gunasinghe, whose 2nd death anniversary fell on October 31st, was the most outstanding left intellectual of his generation and arguably the finest Marxist social scientist and intellectual that Sri Lanka has produced.

The objective of the discussion that we have organised today is to assess the current economic, social and the political situation and the role of the working class in this conjuncture taking into account various new developments that have taken place in the economy, the society and the polity. I think that there are certain old fashioned ways of thinking that will prevent the Left from coming to grips with the new reality that is emerging. Therefore, we need a new thinking on the current socio-economic reality based on the tenets of Marxism-Leninism but at the same time creatively applying it to the modern situation that is developing. This is the task that the Left of this country and the working class currently faces.

The first proposition relates to the development of state capitalism in Sri Lanka and its relations with international capitalism. From 1956 to 1977, this country's economy was coming increasingly under State control. There was a tendency on the part of certain sections of the Left to misinterpret this phenomenon as a socialistic or a socialist oriented development whereas it was nothing but the development of a kind of State capitalism within a model of import substitution. This experiment had a certain degree of success, in terms of economic growth, in the initial period of its application — specially during the period of 1956 to 1965 where the State sector was able to build up a certain industrial base. However, thereafter, from about the mid 1960's the internal contradictions of State capitalism itself slowed down this growth. By the mid 1970's the whole State capitalist structure was in a situation of an absolute crisis.

The open economic policy that was introduced in 1977 was of course associated with the UNP; it was initiated and

implemented by the UNP. But we should not forget that the signs of the open economy coming into being were already on the horizon around 1975. For instance the Free Trade Zone proposals had already been submitted to the Cabinet and had been approved by the Cabinet though it was not implemented during the period. Therefore in a rigorous Marxist analysis,

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it is not sufficient to just draw lines of demarcation between various governments — in other words to draw a demarcation between 1956 and 1965 to 1970 simply because the UNP was in power between 1965 to 1970. This is not a very meaningful periodisation because the UNP led government of 1965 to 1970 basically continued the economic policies that were enunciated in the 1956 to 1965 period. What I am suggesting is that by the mid 1970's the facets of open economic policy were coming into being within the context of the SLFP, but due to various political pressures the open economic policy could not be implemented in full in that period.

An underdeveloped capitalist economy

We must also recognise that this period of 1956 to 1977 as well as 1977 to the

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current period (we are already in 1987) has certain continuities. We must emphasise on the continuities though we must also give a certain place to the discontinuities. We must analyse this in a dialectical way. Right throughout this period, the economy of Sri Lanka has

continued to be an underdeveloped capitalist economy which is different from a backward capitalist economy i.e. the kind of economy which existed for instance in Russia during the early 20th century (1900 and 1917).

A backward capitalist economy is an economy where capitalism is actually making progress and going forward and overcoming traditional and feudal relations. It is backward but it is developing, whereas in many countries in the underdeveloped world, what we have is an underdeveloped capitalism. It is qualitatively distinct from a backward capitalist economy. What we have is a distorted form of development which was dictated to us initially by colonialism and now by neo-colonialism. Rather than developing what we are actually being subjected to,

is to underdevelop ourselves. So the whole process of underdevelopment is not a state, it is a process. We are underdeveloping ourselves continuously. That proposition applies to the whole period under review from 1956 (we take it as a point of departure but even before that it was so) to the current period.

Internal contradictions

The internal contradictions of the import substitution model that we had from 1956 to 1977 has created certain obstacles to the growth rate and this mode was in crisis by the time it was the mid 1960's. The economy became static, it was not active. Generally capitalism is associated with the expansion of the market, but we know that during the 1970 to 1977 period the State was intervening in various ways to fragment the market.

The so called *ආදායම්* for instance — how could that be explained within the context of capitalism? These are the questions that we must ask ourselves. Therefore due to the contradictions that were generated by state capitalism, the economy was in a situation of utter slug-

gishness and non-growth by the time it was 1977.

Dynamism

The opening of the economy in 1977 got rid of this sluggishness in the economy. I would like to state once again that this is an underdeveloped capitalist economy and that this proposition applies right throughout the period under review. But the sluggishness of the economy that was generated under State capitalism to a certain extent was overcome specially during the period of 1977 to 1983. The unemployment rate substantially declined. There was a spate of inflation in the very first years the open economy was introduced, but inflation came under control by 1982 - 1983. Employment expanded. There was a certain dynamism that was brought into the economy by the introduction of open economic policies with massive injections of foreign funding such as the Mahaweli Project for

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past in various forums) අපි පමණක් නෙමෙයි. අපේ පරම්පරාව පමණක් නෙමෙයි, අපේ පුත්තු අපේ මුතුපුරු මත්කොම උගස් කියලා කමයි මේවා කරන්නේ. This is a very populist way of looking at it. Actually we

By about 1983 the contradictions in the open economic policy started surfacing. This was basically related to the continued and accelerated recession in the West but also was connected with the ethnic riots in 1983.

But I would like to emphasise here that this was not the kind of situation that existed in the 1977 to 1983 period. During this time the economy displayed a certain degree of dynamism. But in the post 1983 period i.e. the current period, we have three major danger signals to the capitalist economy of Sri Lanka. One major danger signal is that though the unemployment rate substantially came down in the 1977 - 1983 period specially, now the unemployment rate is once again going up very sharply. This is a very fundamental problem. The second danger signal is

must face the reality that we are in a situation of debt taking. Having recognised this then what is important is to keep the debt service ratio at manageable level. But now, the debt service ratio has exceeded 30%. This is not the kind of situation that an economy like Sri Lanka can sustain.

Military Expenditure

It is in this context that we have to consider how the working class is going to react to these new pressures and the new environment that is coming into being. Another very major element in a situation of heightened ethnic conflict and militarisation of the State is the sky rocketing of military expenditure. I think this will eventually change the character of the Sri Lankan state. The Sri Lankan state, in comparison to various other Third World countries, was one of the few states where the military was very very marginal. This was so from 1948 till about 1980. That gave a certain specific character to the Sri Lankan state. Since military expenditure was extremely low, we were also able to keep a certain degree of welfare expenditure going. (Whether it was the SLFP or the UNP doesn't matter at all. The welfare expenditure was kept going by successive regimes). But how

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example. Though the expected linkages were not build up to the extent that they could have been due to the fact that the projects were dependent on the conditionalities laid down by the donors - such as the construction contracts to be given to the companies of the donor countries - we must not underestimate the linkages that were actually built. For instance in the Mahaweli project a widely consumed item is cement. Since we relied on Balfour Beatty Nuttal they imported 90% of the cement that we required. Therefore the domestic cement industry did not get the necessary linkage effects and as a result it did not flourish as much as it could have. But at the same time we should not forget that timber was not imported, sand was not imported. So at that level certain linkages were built and that introduced a certain degree of dynamism into the economy. Therefore I think we should not fall into the error of the traditional Left of thinking that from 1956 to 1977 under the State controlled economy we had great days and that after 1977 everything collapsed. That is populist thinking and not rigorous Marxist thinking.

Danger Signals

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that according to the Central Bank in 1984 the rate of inflation was zero. This of course is not correct. It is correct to say that in 1984 the rate of inflation would have been anything in between 5% to 9% - which is very good. However towards 1986, inflationary pressures started building up and within this year and next year it is very likely that our inflationary level will very easily enter double digits. I would say it would be more likely around 20%. The third danger signal is the increased dependence on foreign aid and IMF and World Bank assistance. Therefore you

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have a situation where the debt service ratio has already reached 30%. This is very bad. In a country like Sri Lanka, if you can keep the debt service ratio at less than 20% it is safe to say that the economy is well managed. Here I would like to restate that we must not look at these problems in the way the traditional Left would: The reality of loans are there, so when we are talking of loans, we should not say like in the olden days (I have myself said this a number of times in the

with increased militarisation, the welfare expenditure has come into question and this is likely to change the social climate in this country.

What is more, in a State where the military is predominant the character of the State changes. For instance we can say at a simple level that Pakistan is a bourgeois state and Sri Lanka is a bourgeois state and that perhaps would be correct - but only at a very simple level.

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But does not the Pakistan State differ in a very fundamental sense from the state of Sri Lanka because of the predominant character of the military apparatus there. Therefore the State in Sri Lanka from 1948 to 1980 was a State where the military was not preponderant. Now with this increased military spending we are moving to a situation where the military will become increasingly predominant. This will eventually change the character of the State of Sri Lanka. Therefore the movement is from a constitutional bourgeois democracy to a constitutional dictatorship. Because, I for one, maintain that ever since the Referendum this country had been under a Constitutional dictatorship. We have moved from a constitutional democracy to a constitutional dictatorship. As to how it has affected the character of the State in

Sri Lanka is another thing that we must discuss.

Fascist Tendencies

Within this context we also get fascistic

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and crypto fascistic tendencies developing in our body politic. These tendencies are not developing necessarily within the State structure. They are developing from without, combining Sinhalese chauvinism, populism and opposition to the UNP regime. This is a new political situation that has arisen. I, as a Marxist and as a student of Gramsci – who probably is the person who did the most original analysis of the emergence of fascism – maintain

that fascism very rarely comes from the ranks of the traditional ruling classes, the established ruling classes. It generally comes from without, it comes from outside the traditional ruling classes. So

these tendencies are making themselves manifest at the current conjuncture. That also we must discuss carefully.

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