Sri Lanka: What does it mean to 'return to the 1970s economy'?

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If Sri Lanka's policy makers are slowly beginning to think about the possibility of local production, we must be wary of top-down efforts that only focus on managing state finances and increasing GDP growth, rather than empowering working people across diverse ethnic, religious, caste, and regional communities.

The crisis staring at us after COVID-19 hit Sri Lanka is manifold. With exports plummeting and our foreign reserves simultaneously draining out, our ability to import key products – from wheat to milk powder – will not be the same. It is in that context that the dangers of a "return to the 1970s economy" has fast become a talking point.

Except that much of the current discussion portrays the period from 1956 to 1977 especially as a doomed experiment to achieve self-sufficiency that inevitably collapsed in bureaucratic mismanagement, insofar as any form of state intervention in the economy is now viewed as illegitimate. This selective reading ignores the global constraints that Sri Lanka faced, especially the structural decline in terms of trade for its primary commodity exports. As development scholar Ronald Herring notes, "Though the economy was exporting substantially more in 1975 than in 1960, those exports had a purchasing power little more than one-third the smaller volume of exports in 1960."

A closer look at the 1970s points to a reality way more complex, where global forces and local political ambitions shaped domestic policy that neither made Sri Lanka less dependent on others, nor empowered our working people to overcome the constraints imposed by the global order. Despite these obstacles, Sri Lanka still managed to make major gains in the welfare of the general population, including education and healthcare. But the structural challenges ultimately went unresolved because the balance of forces remained tilted in favour of capital, rather than working people, regardless of the degree of state intervention in the economy.

The failure, then, to take on capital and transform social relations meant that the contradiction eventually exploded in the 1970s. The proximate cause of the crisis, the oil shock of 1973, dramatically inflated the costs of intermediate goods needed for import substitution. But the context was the failure to reorganise production, across the rural and urban, in a way that would have further empowered working people. We cannot critically evaluate the 1970s, then, if we assume that the transition from the closed to open economy was inevitably positive.

Rather, we must think about the way in which the crisis reflected a social conflict that was resolved in a way that ended up being extremely unfavourable for working people.

The resulting consolidation of the neoliberal regime after 1977 was based on the belief that unfettered integration into the global market would solve all of Sri Lanka's problems. The dominant narrative since then has rested on uncritical assumptions about the inherent benefits of the market.

Given the current crisis, which involves the drain of foreign exchange reserves and looming debt repayments, however, we must revisit the relationship between the achievements and limitations of the social democratic regime from 1956 to 1977. Only by doing so will we be able to address the global economic fallout from COVID-19 as well as Sri Lanka's own responses. The latter will only be successful to the extent that they involve building a more sustainable economic foundation by empowering working people.

The build-up to the crisis of the 1970s

The crisis of the 1970s, with its long build-up since Independence in 1948, was first and foremost the consequence of the structural challenges involving the transition from a dependent to an independent economy. This shaped the Sri Lankan state, regardless of the political party that held power. The state struggled to ensure the welfare of its population through food subsidies, even though Sri Lanka exported several major plantation crops. Because it lacked self-sufficiency in the staple of rice, the country's import bill continued to increase.

The Great Hartal of 1953 was a political response to these economic constraints. The country found itself facing a crunch after the boom in rubber exports during the Korean War ended, and rice imports took a heavy toll on government coffers. On the instigation of powerful global institutions and actors, the Government sought to nearly triple the price of rice. The dramatic price increase sparked the largest protests ever seen in the country. This struggle concluded in the eventual change of regime in 1956. The Hartal became strongly etched in the mind of the Sri Lankan ruling class.

The resulting balance of social forces among capital and the working people produced a historical compromise. The state embarked on a project to ensure sustainable rice production within the country. This led to Sri Lanka transitioning from being 25% self-sufficient in rice to 90% by 1983. Still, the state failed to implement meaningful land reform through redistribution. The failure to change social relations in the countryside, including limitations to land reform and providing 'land to the tiller', shackled the potentially transformative possibilities of developing local knowledge and applying it to the wider economy.

Instead, as many scholars of the period note, elites prioritised a Sinhala nationalist discourse of individual ownership. This meant that by the 1960s the country was caught up in the global 'Green Revolution' to increase productivity. This process increased the cost of imports, including agricultural inputs such as fertiliser.

Governments after 1956 also turned to import substitution. The state invested in those industries in which capital would not. The public sector produced critical commodities to try and lower the cost of imports. Nevertheless, the failure to transform the social relations of production – meaning, the way in which work is organised through hierarchies such as managers and workers – meant that a middle-class stratum within the bureaucracy inhibited worker self-management. In addition, the state protected local capitalists in areas of production such as light consumer goods.

Still, Sri Lanka's economy was not in imminent danger of breakdown until the oil crisis of 1973, and the long downturn in the Western economies with falling profits in the 1970s, which greatly undermined exports from the Third World. The external shock reinforced the emerging belief that collective action had to happen on the global level, including in forums such as the UN Conference on Trade and Development (UNCTAD) and the Non Aligned Movement (NAM).

The ultimate challenge was the structural decline in the terms of trade for primary commodity exports produced by Third World countries. Argentinian economist and UNCTAD founder Raul

Prebisch inspired the proposal for a New International Economic Order (NIEO). The NIEO called for just prices for Third World commodity exports, and to generate capital for development by addressing the ‘trade gap’.

Sri Lanka’s own efforts in UNCTAD were led by Gamani Corea, who became the third Secretary General, after Prebisch. Corea argued that the NIEO would require “co-operation by the developing countries for the purpose of improving their collective bargaining power vis-’a-vis the outside world, of mobilising countervailing pressure, of acquiring muscle and applying leverage,” in addition to “intensifying trade and other linkages between themselves.”

The lessons for today

Ultimately, Sri Lanka’s structural problems were not fully resolved in the compromise between the state, capital, and working people that was established after the Hartal of 1953. Any further shift in the balance of power toward working people within Third World countries in general would have required far deeper struggles on both the global and local levels. This was evidenced by similar challenges facing social democratic and socialist governments from Jamaica to Tanzania.

In the case of the NIEO that was proposed, it was hampered by US opposition, in addition to the effects of separate but inter-related economic crisis in Western countries during the 1970s. The latter similarly involved struggle between capital and labour in those countries. The outcome was the dismantlement of welfare states and their replacement with debt-driven consumption.

Whether the NIEO could have succeeded or not, though, depended as much on the dynamics within the postcolonial countries themselves, as it did negotiations in international forums such as the UN. Only much deeper reform driven by democratic institutions of the working people, such as producer cooperatives and people’s participatory development councils, could have created enough of a popular stake to defend Sri Lanka’s social democratic regime against neoliberal assault.

While Sirimavo Bandaranaike’s government (1970-77), for example, was willing to constrain metropolitan capital, it never really took on the local capitalist and landowning elite. The latter demanded economic liberalisation when the crisis forced a change in regime.

The lessons remain relevant today. Even as the neoliberal regime finds itself in crisis, we must ask, what is the solution, and how will it be framed? If Sri Lanka’s policy makers are slowly beginning to think about the possibility of local production, we must be wary of top-down efforts that only focus on managing state finances and increasing GDP growth, rather than empowering working people across diverse ethnic, religious, caste, and regional communities.

Pursuing the latter solution does not mean embracing the nativist myth of returning to a pristine village community. Neither does it involve surrendering control of the state, especially to the military apparatus, which concentrates the state’s most hierarchical and repressive functions. Rather, it would mean achieving self-sufficiency in a complex economy by proposing a renewed vision within an alternative global order based on principles of justice, equality, and solidarity. To consider this possibility, we must draw the relevant lessons from the 1970s economy by being honest about the challenges Sri Lanka still faces today.

Devaka Gunawardena is an independent researcher who holds a PhD from the University of

California, Los Angeles.

Ahilan Kadirgamar is a Senior Lecturer, University of Jaffna.

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