

Sri Lanka: The role of the state in development

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When it comes to the role of the state in development, Sri Lanka has witnessed an extremely sterile debate that has formulated the question as a choice between the state and the market. There are champions on both sides, increasingly encrusted in their ideological positions.

The purpose of these comments is to try and break through this debate. It does not seem pave the way for new thinking, even though the discussion at international level has moved on beyond this framework.

In the late seventies and early eighties the world witnessed a revolution in development thinking. At the centre of this was extreme optimism in the efficiency of markets, and the benefits of a non-distorted price system and private sector for achieving sustained development on their own. At the political level these views were expressed by the Reagan administration in the US and Thatcher government in the UK.

The World Bank's version of these policies, which had a great influence in the developing world, was structural adjustment policies aimed at limiting state involvement in economic development. The state was to withdraw from the production sphere, stop intervening in the price mechanism, and generally reduce its expenditure.

Philosophically these extreme versions of liberalism are drawn from the thinking of liberal fundamentalists such as Friedrich Hayek and Robert Nozick, for whom any form of state intervention for the purpose of social justice is considered to be in conflict with the individual's inalienable rights to liberty and freedom.

Hence although often promoted as pragmatic policies, the new development thinking that promoted markets, private enterprise and individual initiative has an underlying worldview with assumptions about human nature and society.

Growth process

A major development that paved the way for these ideas to become dominant globally was the collapse of the Eastern European bloc led by the Soviet Union. Ideologically, the collapse of centrally-planned State socialism removed the only real alternative development model to capitalism that the world had seen. It also discredited ideas about state intervention and State planning within the policy debates.

By the mid-nineties, however, these ideas about a minimalist state and dependence on the market began to change. One of the contributing factors for this was a close examination of the growth process in countries collectively known as 'East Asian Tigers'.

Many studies on the 'East Asian Miracles', including a study conducted by the World Bank, demonstrated the effective role played by states in ensuring benefits from the market. In 1997 the World Bank's annual World Development Report focused on the state and development. This report put forward a wide-ranging agenda of reforming and developing state institutions in order to promote a market economy.

Social scientists, who combined political economy and sociology to take a look at the state more closely, came to a similar set of conclusions about the important role that states have played in the development of East Asian countries.

Sri Lanka

Perhaps the most well-known examples are the works of Peter Evans and Robert Wade. Peter Evans in his work developed a typology of different states – predatory, intermediate and developmental. A developmental state is characterised by a well-developed coherent bureaucracy connected by strong internal networks, administrative culture and the capacity to carry out development policies.

It also has a considerable degree of autonomy vis-à-vis both the political elite and economic interest groups in society. This does not mean that the state is insulated completely from these groups and the rest of society.

On the contrary a developmental state has many connections with key groups in society. However it has a relative degree of autonomy to carry out its functions without being captured by sectional interests.

Research on developmental states has brought about a wide-ranging debate in social science literature. Within these debates one of the interesting puzzles is how come some societies are able to develop such states, but others are unable to achieve this objective?

This is an extremely relevant question for Sri Lanka. Although more than three decades have passed since the liberalisation of the economy, which came with a promise to bring about a more effective role for the state in development, it is pretty clear we are long way away from this. By the end of the Rajapakse regime not only has the role of the state in the economy expanded, but a new actor in the form of the armed forces has entered into the economic sphere. In addition there are also a new breed of state-owned private companies. They could proliferate into many spheres crowding out the private sector.

Unfortunately the mainstream discussion, often led by economists, does not provide an adequate answer to the puzzle of the persistence of a significant state sector in the economy.

Most often analysis of this question amounts to lecturing political masters with material taken from economic textbooks. It is as if it is believed that if politicians knew their economics better, they would desist from these actions and formulate a proper role for the state in the economy.

Origins

A more fruitful way to go about the analysis is to identify an ideological and social basis for the persistence of the significant role of the state in the economy. These lines of reasoning can throw up a number of answers to this puzzle. Of course I don't claim these to be the only answers, but at least they can widen the debate.

In the history of ideas of development in Sri Lanka, looking towards the state to drive development has come from various political and ideological currents.

(a) Contrary to the widely-held belief that it was some idea of socialism propagated by the Left that expanded the role of the state in the economy, depending on the state to drive development was much more widespread. Its origins go back to the colonial period. In the run-up to independence, hardly any member of the future political leadership believed in any kind of private sector-oriented laissez-faire ideology.

It is very difficult to find a commitment to this type of ideology at any significant level. For example, the broad outline of the development vision of the first UNP regime consisted of continuing with the privately-owned plantation sector inherited from the colonial period, but for the state to play a key role in industrial development as well in improvement of the agrarian sector.

In short, when the post-colonial leaders inherited the state, the state was seen as the driver of development. True, from the mid-fifties the focus on the state expanded, especially in industrialisation, but one can see a continuity before and after the mid-fifties with regard to the vision of the state.

(b) The expansion of the state played a much more central role in the ideologies of the Left, and the Left also helped to mainstream these ideas in the country. The Left's contribution in the realm of ideas has been much more significant than their actual control of the levers of political power.

However little is known in the country about debates within the Left, found mainly in social science literature. Some of these writers give a class interpretation to the expansion of the state in the economy.

Multi-class character

For example, making use of the work of the Polish political economist Kalecki, some writers explain the expansion of the state in the economy using the notion of 'intermediate regimes' to explain the political economy of state-dominated development policies.

Intermediate regimes have a state with a multi-class character. In this coalition classes such as middle-level landowners, sections of the trading class, those employed in minor positions within government and vernacular intelligentsia play a role.

Often they are the greatest beneficiaries of the expansion of the state's role in economy. It is also necessary to note that perhaps the only full book-length that characterised the major role that state

played in development Sri Lanka as State capitalism was published by a scholar from the former Soviet Union (L.G. Ivanov) way back in 1969.

Hence the debate within the Left-oriented social science community differed from the position taken by political parties of the traditional Left.

(c) The final ideological current that supported the expansion of the state is Sinhala nationalism. The nationalist character of the demand for state expansion is unmistakable in the rhetoric of anti-imperialism. For the Sinhala nationalists, the state was important to achieve various nationalist goals like redressing economic discrimination committed during the colonial period and protecting the economy from foreign domination.

Contradictions

The nationalist sections of capital also support this position. Therefore, the state-centric development ideology formed an integral element of the nation-building thesis in the post-colonial period.

The persistence of a highly centralised, dysfunctional state, now saddled with significant defence expenditure, will create its own contradictions for sustainable economic growth in the context of global capitalism.

However given the strong ideological currents that support this state, it is difficult to foresee its reform in purely technical terms. The more important arena is the arena of ideological battles. It is here we need to be active.

For example, one of the main arguments that has been used to support the persistence of such a role for the state in the economy that such it promotes social justice. The question that we have to take up is can we continue to maintain this argument unless this state is reformed?

To put this in class terms, the persistence of a large-scale state sector benefits intermediate classes employed within the state, cronies who benefit due to various favours given by the state and politicians for whom access to state resources is an essential means of maintaining power.

But when we look at the fate of marginalised groups such as the small peasantry and the working class spread across the country, those engaged in small-scale self-employment, women whose labour power forms the basis of the economy, and various other social groups marginalised due to caste, class or ethnic characteristics, can we maintain the argument that this unreformed state is a vehicle of social justice? The answer is certainly no. It is this type of debate that we need to promote in order to reform the state.

As much as the role of the state in the process of development has to be reviewed, the responsibility of the state in relation to the social dimensions of growth also needs to be opened up for debate. However in this area one positive aspect is, despite earlier efforts to reduce the role of the state in social policies, very few would argue in such terms today. Especially in Sri Lanka, there is resistance to reducing the role of the state in welfare.

One major reason for this is that Sri Lanka has a long tradition of the state playing a significant role in welfare issues. This has developed to the extent that some characterise Sri Lanka as a welfare state. Most of the policies that underpin this idea began during the colonial period.

There were several strands in social policy legitimised in different ways.

For example, at one time, all households in Sri Lanka were entitled to a basket of food items at a subsidised rate. The basic argument was the need to ensure a minimum level of nutrition to the entire population. Second, a range of policies developed to support the smallholder peasantry engaged in agriculture.

This was defended by a number of arguments, including a nationalist discourse of preserving a particular mode of living that was seen as the bedrock of Sri Lankan society.

Third, state investment in education in order to ensure access to education especially in rural areas. This had a strong distributive argument, with roots going back to the highly unequal, almost two-tier, education system that prevailed during the colonial period. Finally, provision of health facilities was also seen as a basic responsibility of the state.

These policies did achieve results. Many of the social development indicators often touted as a success story of Sri Lanka are a result of these policies. Of course they had their limitations and contradictions.

Structural adjustment

Some of them became costly for an underdeveloped economy. Sometimes benefits were mediated through the social structure, the better-off sections of the population benefited most. But it is important to note that the very presence of these policies created a rich discourse on welfare and the role of the state. As shown above, the underlying arguments about these policies covered several dimensions.

The advent of structural adjustment completely changed the discourse of social policies. At the beginning the focus was on what were called targeted safety nets. The implication of this terminology is that these measures were meant to safeguard the poor from the impact of reforms brought about under structural adjustment. This was supposed to be the main role that the state should play vis-à-vis the poor, while in the long run economic growth took place and the benefits trickled down to the poor.

This was followed by a discourse on poverty alleviation. This too was targeted, but the objective went beyond a safety net. Sri Lanka has seen several such poverty alleviation programs.

These programs used an elaborate methodology, using the methods of participatory ideology that became fashionable in development circles in order to choose people and support, in most cases, various programs of self-employment. In addition to the programs that were implemented by the state, many non-state actors were involved in such programs.

Development process

They have generated various types of studies and evaluations, and the record seems to be uneven. For example, Sri Lanka seems to have reduced the number of households below the poverty line, at least in some parts of the country.

An interesting research question to ask is how much these efforts at poverty alleviation have contributed to this result, and how much has been due to other factors like new employment

opportunities, wages, and the prices people have received for their agricultural produce. My initial hunch is factors within the development process have been more important than poverty alleviation projects.

However the most important impact of these poverty alleviation/reduction programmes during the period of a more liberal economy has been at the ideological level. They have established a more conservative notion of success of development efforts, displacing other discourses that prevailed previously.

If we examine closely what is measured by the official poverty line, it is the ability of a household to obtain a certain minimum level of needs.

This is a much more conservative policy agenda compared to distributive justice, or even the idea of protecting the peasantry, which dominated Sri Lanka's discussion on welfare.

Therefore the poverty alleviation discourse, whose real focus has been ensuring a basic minimum in living standards, has been projected as a major development achievement.

It is not surprising at a popular level that these programs have to be legitimised through catchy phrases like *Janasaviya*, *Samurdhi*, *Gamanaguma* or *Divineguma*. These are all ideological constructs legitimising projects whose results do not amount to much.

There are many other conservative elements in this concept. For example, poverty alleviation studies always focus on individual households, without taking into account the social and political relations within which they live.

Marginalised

Therefore they contribute to masking structures of power that place some people in a marginalised position.

They generally support a conservative ideology about the possibility of gradual improvement of the conditions of the marginalised, without significant structural or political shifts.

The biggest impact of the notion of poverty alleviation that was introduced under liberalised policies is making these conservative ideas hegemonic.

It is clear we need to go beyond this conservative ideology of poverty alleviation in the present context where there is greater recognition of inequality and the wide-ranging political implications of social inequality.

The other side of inequality is the discussion about social mobility. For example, what factors contribute to social mobility in a market economy? How do these factors operate in relation to different social groups? What can state policies do to support social mobility in different contexts? These are more relevant questions for the debate on social dimensions of growth than poverty alleviation.

All over the world there is a much more robust discussion about inequality taking place. Thomas Piketty's book *Capital in the Twenty-First Century*, where analysis of inequality forms a central core, achieved the status of a bestseller.

In his last editorial even the former chief editor of a magazine such as *The Economist*, which has

been a steadfast supporter of liberal economic policies, raised this issue as a key concern for global capitalism. In the context of a growing economy where there is manifest injustice, in many countries inequality gets politicised as a battle against corruption. We saw this during the last election in Sri Lanka.

Therefore, rather than poverty, we need to ask questions about inequality and social mobility before it is too late.

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P.S.

*<http://www.sundayobserver.lk/2015/02/22/fea02.asp>

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