

NOTES TO THE PEOPLE

# Pandemic (Sri Lanka): From Neo-Liberalism to Covid-19 Capitalism

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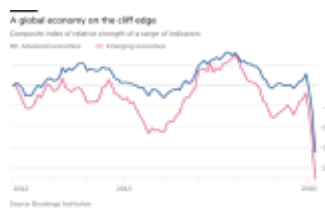
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It is almost certain that the neo-liberalist phase of global capitalism has reached its end point with the outbreak of Covid-19 pandemic and the associated global economic downturn. Unlike in the 2008-9 crisis, China will not be able to save the global capitalist economy this time as its economy is also being hit by the pandemic although it is in the path of recovery now. What will come up at the aftermath of neo-liberalism is not clear. Nonetheless, it is certain that it would be a continuation of capitalism in a different form and content, primarily owing to the fact that the social liberationist forces are not in a position to transform the power equation of the global society. Hence the fact that capitalism would continue may once again be reduced to the crisis of leadership of the anti-capitalist forces, nationally as well as internationally. However, it is not yet clear what kind of capitalism would emerge in the aftermath of neo-liberalist phase and at the time of Covid-19 pandemic.

It is not easy to visualize the real shape of the economy that would emerge in the post-Covid-19 period. In searching a better term, I would use temporarily the term with minor changes coined by Naomi Klein, Covid-19 Capitalism. Of course, its features may resemble the that of previous phases of capitalism. Following Ernest Mandel (Late Capitalism), we may note that the capitalistic world system had gone through since 1820 four separate phases. They were: (1) the age of freely competitive capitalism (1820- 1873); (2) the age of imperialism 1873- 1920; (3) the late capitalism or the age of social democracy (1920- 1980); (4) 1980- 2020 the phase of neo-liberalism. Of course, these phases share certain similar characteristics. However, as these new phases had emerged facing a crisis in the previous phase, each phase has its specific characteristics.

This article is not intended to focus on broader global issues but treat them as given so that the Sri Lankan post-Covid-19 scenario is assumed to be conditioned by the international development. The global economy is now encountering the worst downturn since the World War 2. Figure 1 shows the magnitude of the collapse as a consequence of the Covid-19. As Michael Roberts has quoted, "JP Morgan economists reckon that the pandemics could cost world at least \$ 5.5 trillion in lost output over the next two years".



## *Figure 1: Global Economic Trends*

It also shows that the emerging markets may also record negative or zero growth for the first time since 2000. In this context, if Sri Lanka wishes to continue to depend on export growth and tourism, such a strategy would be doomed to failure since the global situation is and will be bleak to give validity for such a strategy. The world demand for our exports will decline as the demand for most of the consumer goods are very much sensitive to income level and growth of the rest of the world, especially of the advanced capitalist countries. It has been said that although \$ 18 bn export income is forecast for 2020, the actual income will not go beyond \$ 10 billion. The same may be true for tourist arrival.

### **Three Paths of Change**

In my opinion, Covid-19 has struck a final nail on the neo-liberal economic policies that was first introduced in 1977 in opposition to and replacing the economic policies of 1970- 1975. It has been generally agreed that the rate of growth that was subdued for the last 4- 5 years would be negative in the first half of 2020. The failure to flatten the curve showing infected persons would make yearly performance of the economy in 2020 bleak. Some commentators have already predicted there would be 100,000 unemployment in the formal sector oriented towards exports of goods. The consequences on informal sector employment would be the same although it would be difficult to cite numbers.

How do we face the current impasse? Hypothetically, we can see three possible scenarios/proposals. First, would argue Covid-19 is an exogenous shock so that the policy changes should not go beyond addressing those conjunctural issues. After addressing those issues, the same economic policies may continue. Second argument would propose a complete inverse of neo-liberal policies moving towards non-capitalist development path. Third position may be located in between these positions. I may argue that some significant changes should be introduced to 1970- 2020 policy package but staying within the capitalistic path of development mixing some elements of 1960- 1975 policies with that of 1977- 2020 policies.

### **Covid-19 Capitalism in Sri Lanka**

President Gotabhaya Rajapakse has recently appointed a Presidential Task Force on Economic Recovery and Poverty Eradication under the chairmanship of his brother Basil Rajapakse. Previously he headed another presidential task force that look after the distribution of essential goods and services and concessions for poorest of the poor and for those who lost their daily employment because of the imposition of curfew and lockdown. The task force is well represented by government bureaucrats, military personal, and selected business sector people. Ironically, no single representative of the country's trade unions was included. Hence, 8.3 million working people were completely left out of the task force. The steps taken by the government so far and the composition of the task force give reasonable idea about the economy that would emerge in the next two years or so. Let me delineate some of the features. I do not claim that this is a complete list and it would be subject to change in the process of implementation.

**1. The state would play a crucial role in stimulating the economy:** W A Wijewardene, former deputy governor of the Central Bank has put it this would be a different role from the state's role under neo-liberalism. He writes:

*"Washington Consensus advocated for market reforms to facilitate the private initiatives to take*

*economies to prosperity. Covidonomics, in contrast, has placed the Government at the steering wheel to drive the economies out of the deep depths to which they have fallen.*

In essence, Covidonomics suggests that the governments should flood their economies with moneys - in the form of handouts, subsidies or loans or all or a part of these in a combo - so that people who matter in running an economy will get a money stimulus. This is the old Keynesian prescription for driving an economy when it is temporarily down due to a fall in the demand for its potential output.”

**2. Public health as a responsibility of the state:** If anyone who had listened to Macron, the French president, would realize that the state can move away from this responsibility. Sri Lanka has developed highly advanced public health system and that has been working reasonably well in the Covid-19 pandemics. During the last 30 years, the state wanted to build a parallel private health system using public resources. So, in the future, the state would be forced to spend more on public health system.

**3. The hegemony of the capital:** Covid-19 and its negative impact on the economy will be taken by the bourgeoisie to control the labor force for the need of capital. The Employers’ Federation of Ceylon has already presented the case for labor reform so that they can easily fire workers without going through the tedious process. Many companies have asked for the permission not to pay wages and to stop paying EPF contribution.

**4. The benefits for capital:** The concession package the government and the Central Bank have introduced has a clear class bias. The best example is that the borrowers of micro credit has not been covered by the deferment of loan repayment. Micro credit companies have been continuously using intimidatory tactics against the borrowers. So, the concession package became more beneficial to big companies rather than small and petit producers.

**5. Increasing Indebtedness:** After 40 years of neo-liberal policies, Sri Lanka has become a highly indebted nation. Public debt as a percentage of GDP is over 80 per cent and rising. It is certain, that at the end of the Covid-19 pandemic, it may even grow closer to 100 per cent. The government is seeking and in the process of discussion get a borrowing facility from the International Monetary Fund. This is in addition to bilateral loans, swap arrangements with the Reserve Bank of India and sovereign debt.

**6. Growing fiscal deficit:** It has been roughly estimated that the fiscal deficit would reach 10 per cent of the GDP by 2021. As the great Austrian economist Joseph Schumpeter remarked “the budget is the skeleton of the state stripped of all misleading ideologies”, the truest reflection of the distribution of power and influence. Since the government would give all kind of tax concessions and incentives to private enterprises, the tax burden will be placed on the general population in the form of increasing taxes that were overwhelmingly indirect and thus fell disproportionately on lower incomes.

**7. Dilemmic relationship with the IMF-WB:** Although the IMF has proposed the possibility of taking intrusive actions by the state at the eve of Covid-19 pandemic, it is clear that coronavirus debts will eventually be the battering ram for a new campaign of austerity. This will totally upset the Presidential Task Force insistence on import controls and import substitution policies. Hence, it may not be easy for the government to carry on with its national economic development strategy while depending on the international financial agencies for loans.

**8. Strong and authoritarian government:** China and Vietnam have been praised as states that were successful in containing the spread of Covid-19 pandemic. These two countries together with South Korea in the latter part of the twentieth century are cited as a model for economic

development. Hence, in dealing with Covid-19, it has been argued that it is imperative to have a strong government.

**9. Role for national bourgeoisie:** It appears that the government has placed much emphasis for national bourgeoisie in stimulating the economy. And import controls and restrictions have been proposed in order to ensure market for their products. So they are well represented in the presidential task force.

**10. Enslavement of petit producers:** Although the government has been forced to support an increase of local food production, no proper distribution arrangement has been designed so that the producers get fair price for their products. The establishment of big and central economic centers will be beneficial not to the real producers but to the middleman and emerging local businessman to earn super profit. No serious attempts were taken to reinvigorate the co-operative system or to restraighten village communities.

The above listed elements enable us to envision that post Covid-19 capitalism in Sri Lanka that would emerge as a consequence of the strategy of the presidential task force would reinstitute with additional features the existing capitalist system. Although some left leaning intellectual would be happy about Sri Lanka following the growth trajectory of Vietnam, the socialists who stand for social emancipation and human-nature equilibrium may not reach the same conclusion. Rather, they would share David Harvey's dystopian prospect, some kind of authoritarian behemoth who wishes to continue profit accumulation and the Promethean view of development.

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