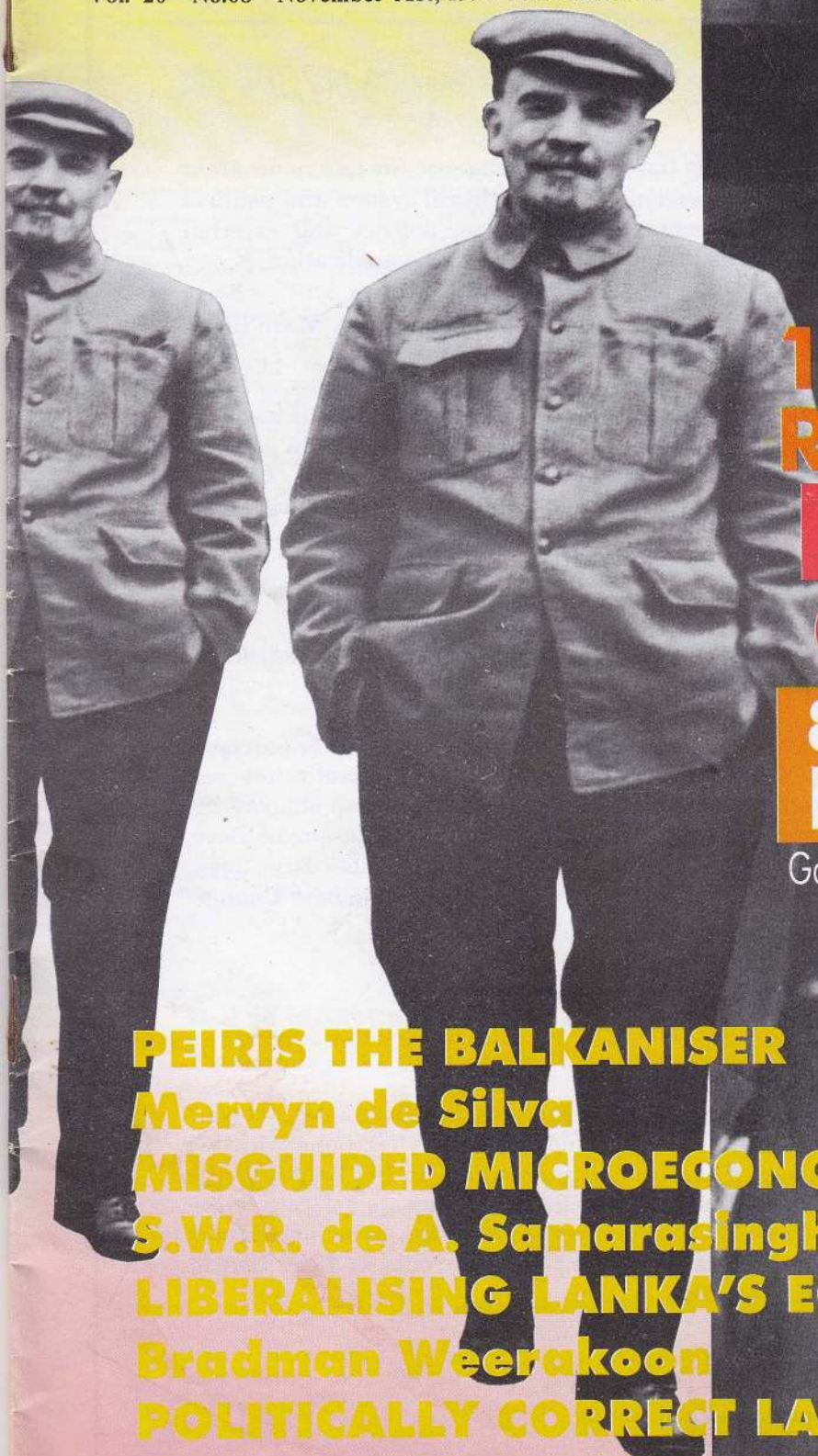


THE IDEAS GUARDIAN

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1917 - 1997 RETHINKING **RED** OCTOBER

80th Anniversary
Reflections

Gail Omvedt / T.Duraisingam / Al Richardson

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Mervyn de Silva

MISGUIDED MICROECONOMICS

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LIBERALISING LANKA'S ECONOMY

Bradman Weerakoon

POLITICALLY CORRECT LANKAN ECONOMISTS

Tisaranee Gunasekara

THE IDEAS MAGAZINE

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INTERNATIONAL CENTRE FOR ETHNIC STUDIES
KANDY
PUBLICATIONS

Four books - essential reading for every Sri Lankan who wants to know why our national institutions from Parliament and Bureaucracy to Universities and the economy are in a state of dysfunction if not crisis.

- *Sri Lanka: Problems of Governance* by K M de Silva (editor), G H Peiris and Radhika Coomaraswamy, 1993. (Rs 850/=)

The authors try to answer the question "Why has post-independence Sri Lanka not lived up to the promise of its early years of independence?" The political system and political economy of the country, civil liberties, language and religion, defence and external affairs are among the wide range of themes that are dealt with in this publication.

- *The University System of Sri Lanka: Vision and Reality* edited by K M de Silva & G H Peiris, 1995. (Rs 600/=)

Written at the time when Peradeniya University celebrated its 50th anniversary, the monograph appraises the achievements and failures of the University System in general, and Peradeniya University in particular, and its contribution to Sri Lanka's development. Contributing authors: Professors Asoka Ekanayake, K N O Dharmadasa, S A Kulasooriya, S N Arsecularatne, B L Panditharatne, Drs. Wijaya Jayatilake, Neelan Tiruchelvam, Messrs. D L O Mendis and W M A Wijeratna Banda.

- *Development and Change in Contemporary Sri Lanka: Geographical Perspectives* by G H Peiris, 1996. (Rs 850/=)

This is the most comprehensive analysis of post-independence socio-economic development available today. The author presents a rich variety of quantitative and qualitative data, much of it not readily accessible to the average reader, to support the discussions on a large number of major themes ranging from, Physical Resources Base, Environmental Hazards, Development of Peasant Settlements in the Dry Zone, Plantation Crop Production and Social Welfare Services to Macro-Economic Change: Problems and Prospects.

- *Regional Powers and Small State Security: India and Sri Lanka 1977-90* by K M de Silva, 1996. (Rs 850/=)

This is a comprehensive and incisive case study of international relations in a cold-war/post-cold war context. It provides an authoritative study of India's relations with Sri Lanka since the 1970s, and especially of the Indian intervention in Sri Lanka in the 1980s. This book is largely based on a study of unpublished documents relating to the Indian intervention. The author has also interviewed most of the principal figures involved in policy-making at the highest levels at that time in India and Sri Lanka, including Rajiv Gandhi, J R Jayewardene and J N Dixit.

ALL ORDERS DIRECT TO:
International Centre for Ethnic Studies,
554/1, Peradeniya Road, Kandy
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THE PACKAGE AND BALKANISATION

Mervyn de Silva

Economics in command. Marx was right. And wrong. It was private enterprise and trade that could unite the world, not the proletariat. But trade wars would create conflict between nation-states. And within states, it is not class conflict that would produce violence and disorder. It is the "nation" that challenges the "state" as nationalisms strive to establish their own separate State, often by force of arms rather than ballot and Parliament. Thus EPLAM, and the Liberation Tigers of Tamil Eelam, LTTE, acknowledged by the experts as one of the world's most accomplished exponents of cold-blooded terror.

The President of the United States, now the sole superpower, had included Mr. Velupillai Prabhakaran's secessionist guerrilla group, in a list of thirty "terrorist organisations". To the LTTE leadership this was unwarranted "foreign intervention" in a domestic conflict and totally biased,

displaying, may we say 'extreme prejudice', a threat quite familiar in the cloak-and-dagger game.

Extreme prejudice deserves extreme prejudice. That evidently was the LTTE's proprio's instinctive response. Thus, the choice of targets, the 40-storey World Trade Centre (WTC), the central Bank quarters from this building, so does the Stock Exchange, and many a well-known foreign firm — in short, a striking symbol of 'open economy' which the "socialist" SLFP and its quondam Marxist partners in the "People's Alliance" now operate. What smarter target to scare away prospective foreign investors and businessmen? A solar plexus blow, a karate blow. And what of tourist agencies abroad, and the sun-and-fun seeking tourists from the U.S., E.U. and Japan, nearly 80% of the high-spending visitors? Tourism and Aviation Minister Dharmasiri Senanayake was frank

when the ET put the question: "Tourism will be the biggest victim of this". This of course was a repeat performance. On their last visit to the port, the LTTE's targets were the Central Bank and the Hotel Intercontinentals. And last week, GALADARI and the HILTON.

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Dear Comrade,

We are honored to be invited to contribute an article for your special issues on the 30th Death Anniversary of Che Guevara and the 50th Anniversary of the October Revolution.

At the same time we deeply regret that neither Paul Sweezy or I am able to accept. The simple fact is that the advancing years have taken a toll on our energy and the time available for research and writing. We are pleased that we are still able to participate in keeping Monthly Review and Monthly Review Press going. But sad to say, that consumes all our energy. We would very much want to participate with you, but alas are not able to.

With best wishes for successful special issues and for the magazine in general.

Comradely yours,

Harry Magdoff
Harry Magdoff

Over forty tourists were rushed by ambulances to city hospitals. 21 lives, nearly all Sri Lankan, were lost.

This was also a special message for the Singapore multi-millionaire, S.P. Tao., who owns the world Trade Centre. He had become one of the biggest investors Sri Lanka had attracted despite the Trotskyists and Communists in the grand coalition. And big names do attract their own kind.

Growth last year was an unimpressive 3.5%, the Central Bank reported, perfectly aware doubtless that the "Tiger" attack on the Bank building had much to do with the sharp drop in investment. It is possible that the LTTE's "intelligence unit" noted that the Court which heard the dispute about accommodation in the World Trade Centre, ruled that the Central Bank was obliged to occupy 13 floors. (unlucky number!) reserved for the Bank.

Despite such disappointments, the Central Bank had anticipated a 6% growth this year — a figure which President Kumaratunga cheerfully publicised. Poor Mr. Dharmasiri Senanayake is quite upset. The 1996 'Tiger' attack in the city's business centre had resulted in a 25% drop in tourist arrivals last year. Recovery this year was on the cards, told foreign correspondents, cheerfully. And now?

The transatlantic cousins have become a special target of the LTTE. Colombo has no secrets. The visit of Mr. Liam Fox, a senior FO hand when Prime Minister John Major and the Tories were in office, persuaded Opposition Leader Mr. Ranil Wickremesinghe to extend support for a U.K.-sponsored "conflict-resolution" exercise. Mr. Wickremesinghe readily agreed to support a PA move. Engaged already in an earnest effort to end the "long war" over Ulster, the Tory party and prime Minister Major used their "good offices" (and some polite armtwisting) to help the PA. Liam Fox was facilitator-mediator. The polls saw the Tories defeated. But on external problems like the conflict in Sri Lanka, party differences are not allowed to obstruct diplomatic initiatives. Now the LTTE and Mr. Prabhakaran have said "UP YOURS" to both the U.K. and President Clinton's country!

Mobilising foreign support was only one arm of the PA's "grand strategy". The other arm was the isolation of the LTTE to win over its popular support-base, the Tamil voter. Prof. Pieris was President Kumaratunga's field commander. Constitutional reforms, devolution package, plebiscites and a carve-up of the Eastern Province. The Tamils who regard North-and-East their "traditional homeland" will have

to vote, together with the Muslims and the Sinhalese, and underwrite a territorial arrangement which should satisfy those Tamils for whom EELAM is North AND East.

But the way things are going, the Muslims will not really help Prof. Pieris. The SLMC

led by Mr. Ashraff, a Cabinet Minister, insists on a "Muslim" unit, on the argument that the Muslims represent a third of the provincial population as against 42% Tamil (not a majority) and the Sinhalese 25%. Is Prof. Pieris hell-bent on Balkanisation?

36D, Mahajana Mawatha
Oruwala,
Athurugiriya

06th October, 1997.

The Editor,
Lanka Guardian
No. 246 Union Place
Colombo 02

Dear Sir,

TROTSKY AND THE LSSP

The primary concern in my letter of 9th August (L.G. 01st Sept. 1997) was to correct a matter of fact. The high dudgeon with which Mr. Mahindapala spreads himself over two pages of your journal (01 October 1997) has been activated by my use of the word "contemptuous" to describe his account of the decline and fall of the LSSP. That is a matter of opinion, and the vehemence of his response has blinded him to the fact that I used the word "débâcle" to express my own disillusionment. "Verbal abuse" has never been my stock in trade, and I am surprised a Gentleman of the Fourth Estate has so lost his cool.

In common with many others of my generation I have been equally saddened over the years by the almost total withering away of the original revolutionary impulse as contained in the Manifesto of the LSSP adopted on 18 December 1935. There is no gainsaying the fact that it remained substantially true to these ideals in the first twenty-five years. Its later opportunistic transience would have distressed Trotsky if he was alive. I hope this will appease Mr. Mahindapala's *amour propre*, not to mention his temporary loss of contact with "one of those infinitesimal chips in his cerebral motherboard" Down Under. I regret I was drawn into this explanation, and I prefer to rest my case. In the context of your present financial predicaments, I believe you need to use your valuable columns to deal with trends and issues of current import and greater relevance in today's tragic polity and misdirected socio-economic impasse.

H.A.I. GOONETILLEKE

MISMANAGED MICROECONOMICS

S. W. R. de A. Samarasinghe

Stanley Samarasinghe is Research Professor at the Tulane Institute of Development Studies in Washington DC. He is a Director of the International Centre for Ethnic Studies and Managing Editor of its journal Ethnic Studies Review.

The "dismal science" - otherwise known as "Economics" - earns a bad reputation that it does not deserve when those whose business it is to be guided by what little it has to offer choose to ignore it. As an observer of our economic policy scene I get the impression that our policy makers have a reasonably good understanding of what we in the trade call Microeconomics. These things such as budget deficits, inflation rates, exchange rates etc. that affect the big picture. But that is not true of Microeconomics that deals with individual markets, whether it is for vegetables, bus fares, doctors' services, unskilled labourers, rural credit, or whatever.

The policy makers also often fail to make the vital analytical link between macroeconomy and the individual markets whose aggregate makes up the former. That explains why the 1977-89 UNP administration never made a serious effort to overhaul the plantations although they were a severe drag on the macroeconomy (e.g. low tax revenue and low growth). The same lack of analytical clarity led the FA to reduce the price of broods, and then realize the enormous fiscal folly of its rash action.

Unfortunately our policy makers seem not able to learn from past mistakes. Here are three recent examples of either actual or potential microeconomic mismanagement.

CASE 1: EGG IMPORTS FROM INDIA

The Trade Minister Mr. Kingsley T. Wickramaratne recently threatened to import eggs from India unless the local producers reduced the price of eggs. The newspapers that reported the story did not say by how much he wanted the price to be reduced. The price of an egg had risen to Rs 4.75 to Rs 5.50 at the time (September), the Minister

addressed the big egg producers on this issue. Then went on to say that it was only Rs 4.00 to Rs 4.50. It is everybody's to tune that the price has fallen to about Rs 3.25 to Rs 3.50 by mid October without any imports from India.

Now that the price has come down, the minister, who justifiably worries about the cost of living, and the consumer are bound to be satisfied. However, for several reasons, it is worth paying more attention to this episode. First, eggs being a principal source of animal protein in the Sri Lankan diet, egg prices are a matter of great public concern. Second, the industry provides a livelihood to several thousand people. Third, it gives us a glimpse of the ad hoc nature of making of important economic policy in our country.

First let us consider the facts. Under "normal" production/market conditions Sri Lankans consume about 2 million eggs per day. According to egg wholesale market sources, by September there was a 10% to 15% shortage of supply. One of Sri Lanka's leading experts on poultry production who prefers to remain anonymous attributed that shortage to "most of the small producers going out of business". This happened, he said, mainly due to two reasons. First, sharp price fluctuations in the recent past made small-scale egg production unviable. A few months ago, before market prices rose sharply, the cost of production was estimated to be around Rs 3.70 and the wholesale price was around Rs 3.80 giving a margin of 10 cents that was totally inadequate to keep the small producer in business.

The second reason for the drop in supply was the devastating outbreak in the poultry industry by the "Gumboro" disease that spread in some parts of the country. Gumboro is a disease similar to AIDS in humans, that

destroys the immune system of the birds. (The disease does not affect humans.)

As a result of the drop in supplies prices rose between last June and September from about Rs 4.00-Rs 4.50 per egg to Rs 4.75-Rs 5.50. The price in Colombo was further pushed up due to the fact that the regional producers found markets closer to home and reduced supplies to the metropolis.

The large-scale producers, whom the Trade Minister summoned for discussion, have always operated on a higher profit margin than their small-scale counterparts. When the wholesale price of an egg is around Rs 3.50 to Rs 4.25 they are believed to secure a gross margin that varies between 50 cents to 60 cents. So the industry analysts doubt whether even the rate of return is a sufficient incentive to expand output.

Given the above scenario, the question is whether it makes economic sense to import eggs from India to cut the price to the consumer. In reality prices come down because consumers simply cut back consumption. The reduction in demand depressed the price. However, the mid-October prices will not last for long. Producing at that price will be uneconomical for many and supplies will fall. The seasonal increase in demand for eggs associated with Christmas will also begin to push the price up.

However, had the minister imported eggs from India before prices fell, it would have seriously damaged the local industry. Prices would have dropped further. Even the few remaining small producers would have been wiped out. The large-scale producers also would have seen a drastic cut in their profit margins.

The main lesson here is not to make major changes in policy without considering all its implications. Second, experts say that the government could do something useful for the industry to hold down prices in the long run. That is to help develop a local poultry feed. Currently the industry depends on a corn-Soya ration that is imported. About 40% to 50% of this can be replaced with local rice bran and polish, which at present contributes only about 10% to 15% of the local poultry feed. This can be raised if the current 25%-35% high fibre (husk) content of our rice bran can be cut back 10%-12% by modernizing the rice mills. (India did that about 25 years ago to help its poultry industry.) It is estimated that annually 450,000 tons of rice bran and polish are produced, in our country but that the bulk of it is wasted. Of course the economics of modernizing the rice mills need to be studied before this proposal can be implemented. But it merits further consideration.

CASE 2: AIR FARES

Recently it was reported that a government panel of investigators had fined a travel agent caught discounting airline tickets below the floor price fixed by the so-called Market Development Program prepared by the Department of Civil Aviation. The same report quoting airline sources said that some of the "leading" travel agents were discounting airfares by as much 10 percent to 15 percent. When this program was mooted in January this year the present writer pointed out in a column in *The Kandy News* that in an internationally competitive industry such as air travel, it makes no economic sense to fix floor prices in Colombo. We also predicted in the same article that prices would be discounted, and that has happened. The reason is elementary economics. As long as flights out of Colombo have vacant seats it makes perfect economic sense for airlines to sell them at a price that would help them recover anything above the cost of the (normally awful) food that they serve on flights, because by flying with an empty seat that is about all that they would save!

More seriously, this attempt to fix floor prices kills price competition that normally is the best form of competition, helps the inefficient firms, and makes the airlines (all but one foreign) rich at the expense of Sri Lankan travelers, hardly the sort of thing that a government committed to promote the welfare of the people should do. It has created a airline ticket police paid for by our tax rupees to police the industry. Moreover, this is an ideal breeding ground for what

economists call "rent seeking", and others more simply call bribe taking. The system induces travel agents who discount tickets to give bribes to the officials concerned. If we should have learned one lesson from the era of controls of the 1970s, that is that the best way to reduce bribery is not to create opportunities to give or take bribes.

CASE 3: CELLULAR PHONES

The third example concerns a multi-national cellular company trying to bring used equipment from Hong Kong to Sri Lanka duty free. The apparent justification for requesting this concession is that the company is losing Rs.600,000 per day on its local operations. Rival cellular phone companies have protested to the government saying that duty free import of used equipment will give their competitor an unfair advantage. The protest is justified. What is peculiar about this case is something else. Why should the government (taxpayer) bail out, by granting duty concessions, a company that has obviously failed to perform competitively in the market? (Note that any duty concession results in a loss of tax revenue, and thus

constitutes a charge on the treasury, i.e. taxpayer) If it makes losses they are of its own making. If it has to close shop so be it. The consumers will move on to other providers. At least some of the workers made redundant by the company that closes down may find employment with the other companies that will have more business.

The job of the market is to allocate resources (labour, capital etc.) EFFICIENTLY, meaning without waste. It rewards the efficient producer, and punishes the inefficient. It is not the government's job to thwart the market to protect the inefficient, and in the process allow private business to exploit the consumer.

None of the above three cases imply that markets work perfectly, sometimes markets fail, and fail badly, and the state has to intervene. But policy makers at the very least must know when to intervene and when not to. None of the three cases cited above justify the interventions that have been proposed, requested, or attempted if the goal is to keep down prices, protect the consumer, and encourage efficient firms to grow.

Waiting - 42

Sinhala Syndrome

From Childhood you found firm Faith
In the three Refuges
It was bedrock to Wisdom
And the calm, compassionate eye

Then you saw these furtive creatures of a new terror
Predators in suburban daylight
Tainting with a twisted hate
The peace you loved
They also spoke of Faith
Defiling the very word with horror

I knew they could never rob you of Equanimity
Knowing they dwelt in Hatred
Spawned by greed and privilege and uneasy wealth
Corrupting those who should have known
Better what the Ages breed
In envy, pride, harsh words, false speech and strife
Ignorance of love and the professed ascetic life.

U. Karunatilake

BOOK REVIEW

ECONOMIC CRIMES

Tisaranee Gunasekara

DILEMMAS OF DEVELOPMENT
Fifty Years of Economic Change
in Sri Lanka

Edited by
W.D. Lakshman

Sri Lanka Association of Economists
Colombo 1997
585 pp. Rs.1375.00

In the introduction to 'Dilemmas of Development - Fifty Years of Economic Change in Sri Lanka' the editor states that he has been "eclectic and highly selective in the choice of subject matter..." (p.1). Having read the volume one is left with the conclusion that the editor and many of the contributors have been 'objective and highly selective' - not, in the sense of subject matter, but also in their presentation and interpretation of the economic history of post-independence Sri Lanka.

An excess of objectivity is certainly not a crime many of the contributors to this volume can be accused of. The introduction abounds with many cases in point. Take, for instance, the categorisation of Lankan political parties. The SLFP is "social democratic in its ideological orientation but has also absorbed certain elements of socialist ideology from the radical left"; the UNP is "right of centre... with a basically libertarian ideology in combination with an element of social democracy" (p.5). However the UNP's adherence to this 'element of social democracy' is simply due to the need "for political survival in a society used to basic measures of welfare provision". In other words, the UNP retained the welfare system out of political opportunism.

According to this logic political opportunism must have been the motivating factor behind the UNP's decision to introduce important welfare measures such as free education, the free text books, uniforms and midday meals.

Not so, however, the SLFP and its allies. The regime of S.W.R.D. Bandaranaike in 1958 had "strong social democratic ideals" (p.15). One has to conclude that the approbation extends to the two regimes of Sirima Bandaranaike as well, as the introduction contains no hint that these regimes continued to maintain a welfare system because of the need "for political survival".

It may be pertinent to note point at this that the average welfare expenditure as a % of recurrent expenditure, which was 52.34% in '65-'70 under the UNP dropped drastically by more than 10% to 41.2% in '70-'76 under the UF. (Source: Ibid.) The only logical conclusion is that the '70-'77 regime's commitment to the welfare system was considerably less than that of the Dudley Senanayake regime of '65-'70.

The editor is particularly eloquent in his commendation of the incumbent regime of Chandrika Bandaranaike. His parade of stipes includes such gems as talking; "renewed emphasis on a number of matters of social concern - employment, social justice and poverty alleviation" (p.11) and talking; "greater emphasis on measures of social welfare" (p.12). While paying unabashed homage to the Bandaranaike, the author is disingenuous to harshly critical in his assessment of the various UNP regimes. Unsurprisingly he reserves his strongest condemnation for the regime of Ranasinghe Premadasa. And in doing so, he does not limit himself to the role of economist but dons the mantle

of election observer and human rights activist as well. According to W.D. Lakshman the Election Observer, the elections of 1988 and '89 were won "through widespread use of electoral malpractice combined with the exercise of terror tactics by the regime in power..." (p.10). Obviously he is quite unaware that this same argument was used by Sirima Bandaranaike in her Presidential election petition and it was rejected by the highest court in the land. Or perhaps he considers himself to be a better, more impartial judge of these matters than the Supreme Court?

Follows W.D. Lakshman the Human Rights activist. The period of '89-'94 was "marked by widespread human rights violations including disappearances and extra judicial killings by armed forces supported by organised gangs. Political commentators often described the prevailing conditions as a regime of terror perpetrated by a highly authoritarian government in power" (p.11). All this outpouring of moral indignation while not making a single mention of the suppression of the '71 insurgency by the UF regime headed by Sirima Bandaranaike which resulted in the killing of 10,000 - 15,000 young people in just 5-6 weeks; a bloody reign of terror which shocked the world-renowned and genuinely progressive economist René Dumont. Doubtless that did not amount to a 'violation of human rights'. As for the editor's statement that "The image of ruthless authoritarianism built up for itself by the regime in power however was able to keep social protest under control although the underlying social, political and economic conditions were congenial to such social protest" (ibid.), the following points are of relevance. Firstly, the 'image of ruthless authoritarianism' was not 'built up for itself' by the regime. It was created initially by the Populist JVP and subsequently the

SLFP/PA led Opposition. Secondly, protest of every sort became a permanent feature in the country's landscape during that time - from the failed impeachment to the *pada yathra*. In fact the Opposition during that period did nothing but protest against and criticise the government and the President. This and the fact that the number of anti-government newspapers and tabloids increased phenomenally during this period, as did the number of trade unions registered (83 in 1990 to 154 in 1993; Source: Statistical Pocketbook '95) and the number of trade unions functioning (1052 in 1990 to 1151 in 1993 Source: Ibid.) clearly demonstrate that charges such as "ruthless authoritarianism" are baseless and politically motivated. As for the statement that "social, political and economic conditions were congenial to social protest", may we inquire: in relation to which period? '70-'77, '77-'88? Or post '94?

Another fascinating observation made by the editor is that *"the manner of implementation of the SAP package gradually produced conditions of 'crony capitalism' in the country"* (p.11). Obviously one erred in thinking that crony capitalism was a fairly old phenomenon which was present even during the period of '70-'77. On second thoughts one has to admit that the editor is correct. What was in existence during the '70-'77 regime was not crony capitalism; it was 'serf capitalism' i.e. one had to be a serf (and a willing and loyal one at that) to be permitted to become a successful capitalist!

Follows another interesting observation: *"whatever may have happened to 'absolute poverty' or living conditions of those in poverty, the package of SAPs continued to produce extreme 'relative' inequality in the system"* (p.11). What happened to absolute poverty or living conditions of those in poverty may not matter a farthing to the editor. However, it is reasonable to assume that this was a matter of no mean importance to those millions of people living in absolute poverty - and according to a table Prof. Lakshman reproduces in his chapter on poverty and income distribution, absolute poverty decreased in '90-'91. Of course like many of the editor's previous comments, either of approbation or criticism, the earlier mentioned observation (on p.11) remains unsubstantiated. Perhaps that is because the figures show otherwise:

INCOME OF HOUSEHOLD: PERCENTAGE OF TOTAL INCOME RECEIVED BY EACH TENTH OF HOUSEHOLD /SPENDING UNIT

Deciles	1985-86 % of income	1990-91 of income
Lowest 10th	0.4	1.9
Second	1.1	3.3
Third	2.0	4.3
Fourth	3.6	5.3
Fifth	4.9	6.4
Sixth	6.8	7.5
Seventh	8.1	9.2
Eighth	11.1	10.8
Ninth	12.7	14.8
Highest 10th	49.3	36.5

Source: Central Bank of Sri Lanka
Department of Census and Statistics

The obvious conclusion is that the distribution of income moved towards greater equality during the period of '90-'91. In fact except for the highest decile, the income share of all the other households increased during this period. Either the editor is unaware of the existence of these figures - which seems highly unlikely as they are included in the Statistical Pocket Book of Sri Lanka - 1995 (published by the Department of Census and Statistics), or he is deliberately ignoring the existence of these figures because they contradict his obviously politically motivated and pre-conceived conclusions.

In stating his perspectives for the future, the editor emphasises the need to pursue the twin objectives of growth and equity in a complementary manner. He further states that *"Sri Lanka is still trying to work out an organically integrated package of policies whereby rapid growth can be facilitated while promoting equitable distribution"* (p.25). According to the editor, of the three lessons of the post-'77 policy adjustments, the more important is that *"a commitment to equitable distribution does not and need not necessarily thwart economic growth"* (p.19). And to prove this point he gives an example: *"As the analysis in a number of chapters to follow shows the post-1989 phase of the programme of liberalisation and de-regulation recorded greater success in terms of many economic aggregates than the 77-88 phase, in spite of a commitment to a very expensive safety net and household transfer project in that phase"* (Ibid.). Then he proceeds to draw the inevitable conclusion: *"The lesson worth learning is that, in the special circumstances found in Sri Lanka any policy package to be effective in promoting*

economic growth must embody two concurrently operating sets of measures: a) to promote entrepreneurship and capital accumulation and b) to improve social welfare and distributive justice" (Ibid.).

Now what exactly is Prof. Lakshman saying here?

i) That a strategy of simultaneously promoting growth and equity is both necessary and viable.

ii) That in the post '89 phase (i.e. during the Premadasa period) there was higher growth despite substantial commitment to social welfare and redistribution.

iii) That the lesson is that in order to be successful, an economic strategy should promote growth together with equity and social justice.

In plain words: the Premadasa regime did follow a policy package of simultaneously promoting growth and equity; this strategy did bear fruit, thereby proving the viability of such a policy package.

However such a conclusion would not fit in with the political loyalties and agenda of the editor. Therefore, a few pages later, the editor contradicts himself in his eagerness to draw the politically correct conclusions: *"As a reaction to certain unacceptable developments seen during the earlier period when a relatively unbridled process of capitalist growth was promoted, the electorate decided during the 1994 election to try out a policy framework of 'open economy with a human face'"* (p.25). Of course he admits that such a strategy is *"yet to be identified and developed"* (Ibid.). By now it should be clear to the meaneast intelligence that what we have and will continue to have is not an 'open economy with a human face' but an open economy with a Chandrika-ist countenance. The editor also identifies a number of factors which would affect the functioning of such a policy mix - particularly the supposed trade off between promoting growth and promoting equity - opting to forget his earlier contention that the policy mix of post '89 did manage to combine the goals of growth and social justice. After all it would never do to tell Chandrika to learn from that upstart Ranasinghe Premadasa, would it? Therefore what option does a 'dependent economist' have other than be 'eclectic and highly selective' in rather more than the choice of subject matter?

STRUCTURAL ROADBLOCKS TO LIBERALIZING THE SRI LANKAN ECONOMY (PART 2)

Bradman Weerakoon

In an earlier article (*Lenka Guardian*, July 01st 1997) the writer argued that in spite of an expressed commitment to a liberalized economy, government influence and direction will remain the key determinants of economic progress in Sri Lanka. The point was made that political considerations and the expectations that people have of government will inevitably mean that considerable freedoms, facilitation and regulation of the economy will have to coexist along with the imperatives of liberalization. The major problem however in Sri Lanka has been that the challenge of the new public management process, which needs to be instituted in the context of the liberalization of the economy, has been approached with the same old tools - institutional, process and human that had served the cause of the earlier regulated economic regime. In this article the writer looks at some of the politico-economic processes and institutional forms which have impeded the success of the 'Asian tigers' and the critical levers of action which remain to be 'liberated' in the Sri Lankan situation.

There is no simple answer to the question which is often posed in regard to the position of the private sector in contemporary Sri Lanka as to whether government economic policy should be interventionist, or whether government should stand off and only manage the fundamentals.

We believe the question itself should be rephrased and placed in terms of how given the dependence of public policy management on institutions, processes and human resources which are now outdated and no longer attuned to current demands, the public policy regime should adopt and change in the context of managing a liberalized economy.

In this regard the experience of some of our East Asian neighbours is clearly relevant and deserves closer examination. This for example a highly revealing statement made by Prime Minister Mahathir of Malaysia on

the precise question of what should be the partnership between the State and the Private Sector:

"A Sovereign State cannot be a business Company but it can be run like a Corporation with the Private Sector forming the commercial and economic arm of the national enterprise and the Government laying down the major policy framework, direction and providing the necessary back up services."

This was the ideological foundation for Mahathir's well known concept of MALAYSIA INCORPORATED in which he sought to introduce business practices, ethics and attitudes at all levels of the Malaysian administration.

It was an adaptation of the policy which has been earlier successfully pioneered in Japan as the economic policy of JAPAN INCORPORATED.

INTEREST GROUPS AND THE POLICY MANAGEMENT PROCESS

If the key area of policy management is to be one of creative partnership between the government and the private sector, how do we ensure the active participation of the latter in policy management as a joint endeavour? This is not only in the way of having access to governmental authorities when problems arise, but institutionalizing the process so that the ideas and needs of the private sector are fed into the policy making process. How have other countries particularly the High Performing Asian Economies (HPAE's) done in this area? Is there something we can learn from their experience?

I believe it would be true to say that in Sri Lanka, although there has been some improvement in this direction, the private sector - especially the business community - does not have an effective organizational structure for the purpose. It has been said by analysts in our Institute of Policy Studies (IIPS):

"The fractured nature of the structure of Chambers and Federations inhibits the business community and prevents it providing a focused input to the policy process. It contributes to narrow and short-sighted in-group perceptions of policy issues. The relative strength of the private sector, its mercantile orientation and overwhelming family base would also seem to be constraints to its growth as an effective partner in the policy management process."

In what has come to be known as the 'East Asian Miracle' on which there has developed a great body of literature, there are some significant lessons which deserve our consideration. Of course, no experience can be completely replicated but we could profit from an understanding of some of what has been attempted. The Republic of Korea has been cited as an outstanding example of successful public policy management:

It has been pointed out that the Korean government had (1) a clear vision of its goals, both industrial and agricultural; (2) the ability to control the economy through using economic instruments. Whenever deemed necessary coercive sanctions were used; (3) willingness to use business to achieve national goals; (4) a record of creating institutions, such as Development banks, Trade promotion agencies, and general Trading Companies; and (5) an ability to make pragmatic policy decisions.

An interesting point that arises from the above description of government action is that political leaders, not only in Korea but in the other East Asian countries too, hold themselves accountable, in a deeper sense than leaders outside East Asia, for the economic performance of their countries.

They and their bureaucracies, and their span of attention on economic policy management were held accountable for the creation of an enabling environment, and the steering of resources, including entrepreneurial ability and activities which were economically efficient. Economic and

social development in Malaysia and Singapore reflect the key role played by capable and strong political leadership in directing public policy management successfully.

In the East Asian countries there always appears to be a shared assumption of a government led co-partnership with the private sector in achieving economic growth and social development. As a result in these countries the private sector organized itself, especially as regards institutional arrangements and human resources, so as to enable it to contribute to the policy management process. Consultative mechanisms were created at the highest levels which brought the private sector into a participatory relationship with the government in the process of policy analysis.

In Thailand, for example, there is the Joint Public and Private Sector Consultative Committee presided over by the Prime Minister and a similar institution for coordination at the Provincial level, presided over by the respective provincial Governors. Such institutionalized mechanisms for coordination regrettably do not appear to have evolved in Sri Lanka. However, anecdotal evidence from business quarters suggest that when such access by the private sector was available through *ad hoc* contact with a highly placed official of a former administration, the wheels of business seemed to move more smoothly. Of course this procedure had many defects, chief among them being the lack of accountability, but the oft heard complaint of those in the private sector that '*there is no one to whom one can turn*' in an emergency to get them out of some snag they have encountered, illustrates the need to evolve some institutional way in which this constraint could be resolved.

A further characteristic of the East Asian economies was that policy management institutions in these countries drew heavily on the research community in providing policy options. Research institutions and "*think tanks*" both inside and outside the government were drawn in by the government such as in Thailand- the Thai Development Research Institute, and in the Republic of Korea- the Korea Development Institute, the Korea Rural Economics Institute and the Korea Institute for Human Settlement.

In addition one had in Malaysia - the Institute of Strategic Studies and the Malaysian Institute of Economic Research which were heavily involved in policy analysis and policy evaluation.

A review of the East Asian success stories indicate that the following 7 key features would be relevant in any consideration of public policy management reform in Sri

Lanka.

1. the importance of the Government having a clear vision of the development goals it has for the country.
2. the acceptance by political leaders, of the importance of their holding themselves accountable for the economic performance of the country.
3. the availability of an informed, capable and strong political leadership which can successfully direct public policy.
4. the assumption of co-partnership between the government and the private sector in achieving economic growth and social development.
5. the availability of consultative mechanisms at the highest level which brings the private sector into a participatory relationship with the government, especially at the policy analysis stage.
6. being able to draw on the research community for policy options at policy analysis and post evaluation stages.
7. the availability of a capable, strong and independent bureaucracy at the highest levels of public policy management.

It is obvious that these lessons have been drawn from countries which are essentially "strong" states with authoritative governments prepared to use coercive measures when the need arose. In Sri Lanka on the other hand which has been described as a "soft", disorganized and uncoordinated State there would be considerable difficulty in meeting these basic pre-conditions for a creative partnership with the private sector.

There yet remain several specific issues which need to be examined in any discussion of a harmonious and collaborative partnership between government and the private sector. There are many issues of concern both to the government and to the private sector, such as:

- A. further development of Sri Lanka's export capability
- B. the effects of price distortion on the operation of the market
- C. tardy progress in privatization
- D. the need to reform and reorient the bureaucracy
- E. the management of the labour force
- F. constructive engagement of the informal sector and

G. reducing the level of political rivalry.

Let us look at some of these issues in detail.

DEVELOPING EXPORT CAPABILITY:

The counter question is often asked, 'What more can government do'?

Sri Lanka's exports in recent times have not done too badly. Compared to many other developing countries which have failed to make substantial inroads in the world marketplace, Sri Lanka's exports since 1990 have expanded about 12% annually in real terms. Within this total, non-traditional exports have been growing at about 20% per annum.

In spite of the fact that the economy has performed quite well during the past decade and the overall economic environment contains many positive features the following problems have been identified by exporters as adversely impacting on their productivity and profitability.

1. Decline in competitiveness and profitability due to inflation and high costs and the relative higher depreciation of currencies in neighbouring countries.
2. Poor infrastructure constraining transport of inputs and finished products - roads, railways and power shortages.
3. High cost of capital and interest rates that are too high.
4. Improper tax treatment for R&D, market research etc.
5. Uneven playing field for non-BOI exporters.
6. Human resource issues, such as;
 - a. rigidity of labour laws; lack of appropriate legislation for sub-contracting; labour unrest.
 - b. excessive number of public holidays; absenteeism.
 - c. inadequacy of trained manpower; managers engineers, designers, etc.
 - d. deficiencies in the educational system which is unable to prepare school leavers to compete in the global economy.
7. Cumbersome bureaucratic procedures; growing corruption.
8. Security problems; lack of law and order and the WAR.

A formidable list of woes but not ones incapable of being resolved given the political will and acceptance of the need for trusting the other economic forces and working with them.

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THE OCTOBER REVOLUTION WHAT IT MEANT

T. Duraisingam

A Solicitor and Attorney at Law, Thambiah Duraisingam, tells himself, 'the first Marxist in Sri Lanka'. Born in Kuala Lumpur, Malaysia in October 1911, he joined the Perambalur College Jaffna which was founded by Sri Ponnambalam Ramanathan. Duraisingam was taught by Ponnambalam Ramanathan, Sri Ponnambalam Arunachalam, Sri Arunachalam Mahadeva and S. Madesan. At age 15 he joined the Jaffna Students Congress which later became the Jaffna Youth Congress. He was elected to its Executive Committee. Coming to Colombo in 1929 to enter University College, Duraisingam joined the Sri Lanka Student Movement in 1931. When the LSSP was formed in December 1935 he was elected its Literary Secretary. He established a firm called Sathan and Bhakt to print and import communist literature and in 1937 established the readers group of the Left Book Club. When the LSSP split, Duraisingam went with the Communists. He has been the Chairman of the Control Commission of the CPSP for several decades. T. Duraisingam has spent the past few years collecting, compiling and arranging his writings (and those of others) to be published in a volume entitled 'Politics and Life in Our Times'. It will come out before the end of this year. In response to our invitation, Mr. Duraisingam wrote this essay exclusively for the Lanka Guardian. It appears in slightly abridged form.

Fifty years have gone by since the October Revolution of 1917, and the world has seen many, many changes brought about in the lives, approaches to events, things and people in all countries of the world. During this period mighty empires have fallen and new powers have been trying to take their place. Britain who had a sprawling Empire, having its rule over countries and peoples in every part of the globe is no longer a world power. It has to be satisfied with being the nominal leader of the British Commonwealth of Nations. Even in Britain, its effective rule is only over England and its rule over the constituent parts of Great Britain is becoming shaky, with ever louder demands for self rule.

DRASTIC CHANGE IN THE INTERNATIONAL SITUATION

It was the Great October Socialist Revolution which drastically changed the whole international situation, and was the chief source of inspiration for the revolutionary movements and for the upsurge of the national liberation struggles. No other event in history has influenced the course of world development as much as the victory of the October Revolution in Russia, a logical result of social development and a turning point from which humanity began its advance to socialism. Human history, these days, Lenin wrote in March 1918, is making a momentous and most difficult turn, a turn, one might say without the least exaggeration, of immense significance for the emancipation of the world.

But this transformation was achieved in the teeth of opposition by the capitalist states.

From the outset the relations of imperialism to the new Soviet power were marked by unrelenting hostility. All the forces of imperialism, German, British, French, American and Japanese, launched their armed offensive against the new regime. Every effort was made to overthrow it by armed violence, by invading expeditions, by blockade, by subsidising counter-revolutionary and bandit forces, and by the organisation of terrorism, assassinations, forgeries and sabotage. During this period the aim of the armed overthrow of Bolshevism was openly proclaimed. Military expeditions invaded Russian territory from every side. Elaborate strategic plans were worked out.

But these early hopes of imperialism were destined to remain unrealised. Through prolonged and desperate struggles, in the face of heavy material superiority of the imperialist and counter-revolutionary forces, their assaults were nevertheless defeated by the resistance of the Russian workers and peasants, in unity with the international working class. This victory was due to the revolutionary heroism and devotion of the Russian people, fighting to maintain their own land and rule and against the return of the hated exploiters; to the division of the imperialist powers; to the corruption and ineffectiveness of the white officers; and to the rising revolutionary advance in all the imperialist countries which paralysed the plans of imperialism, the class-conscious workers of all countries fighting in conscious unity with the Russian Revolution.

As Lenin declared in 1921: "Only because the revolution is developing throughout the

world is the international bourgeoisie unable to strangle us, although it is a hundred times stronger than we are economically and from a military standpoint". By 1921 the main forces of the imperialist and the counter-revolutionaries had been defeated, and the Soviet Republic was an undisputed master of its territories.

ITS IMPACT ON THE PEOPLE OF SRI LANKA

What was the impact of the October Revolution on the people of Sri Lanka? It called for a wave of inspiration among the radical sections of the people as marking the end of the capitalist regime. In 1915 Vladimir S. Peters, one of the leaders of the Young Lanka League, pointed out in the book *A Vision of the Future* that "Russia will emerge into public action now that the Russians have recognised the real stability of a government of the people, by the people, for the people".

Honour fathers of the national movement like Sri Ponnambalam Arunachalam, acknowledged the new situation created by the October Revolution led by Lenin for the freedom movement in Sri Lanka. For this he was attacked in the local newspapers, then controlled by the British Colonialists, who blamed him for "getting into Bolshevism". Sri Ponnambalam's reply was: "We are a very good company".

A. F. Goonesinghe, the founder of the Lanka Union movement in Sri Lanka and, for ten years beginning with 1922, the organizer and leader of the urban working class movement, was greatly influenced by Lenin and the

October Revolution. In his weekly paper *Kamkaru Handa* (Workers' Voice), he wrote several articles about Lenin and his achievements. In 1925 he wrote the following in the paper: "Lenin is a great hero, who liberated the people of Russia from imperialism. He was an outstanding personality who displayed exceptional talent in establishing in 1917 the Bolshevik Russian Republic, a new form of government. All his undertakings were crowned with success".

WHAT DID THE OCTOBER REVOLUTION MEAN TO ME?

I have indicated here about the impact of the October Revolution on our people. But what did the October Revolution mean to me, personally? Its impact was felt by me very early in my life. It came to be via India. V. Kalyanasundara Mudaliyar, a prolific writer in Tamil and also a socialist, with the help of Wadia, an intellectual, established on April 27th, 1918 the Madras Workers Union. This was the very first trade union of workers, established in India. The victory of the October Revolution was accomplished by the 7th of November 1917 and this trade union was founded a few months after it.

Kalyanasundara Mudaliyar now set about establishing a Tamil newspaper, to spread socialist and progressive ideas, and to publish trade union news in order to build up the trade union movement. To set up a newspaper he needed money. People from India and Ceylon, at that time, went to Malaysia to collect monies for such purposes, from their friends, acquaintances and others. Malaysia was and is a rich country with greater opportunities to earn money. Kalyanasundara Mudaliyar went over to Malaysia and met people there, among whom was my father, Sinniah Thambimuttu. My father gave him a liberal contribution and also helped him to collect funds for the establishment of such a newspaper, and the *Nava Shakti*, meaning New Force or New Power, was founded in 1920. We subscribed to this paper from its inception, and I became a regular reader of the paper from my tenth year.

During the 1920s I read a number of Tamil books written by Kalyanasundara Mudaliyar and also books written by another trade unionist, M. Singharavel. The latter was associated with all progressive movements of that period. He was the first communist of Tamil Nadu and he presided at the First Congress of the Communist Party of India. I was greatly influenced by the writings of these two great men. By 1927 I was convinced of the correctness of the Communist cause.

THE SURIYA MAL MOVEMENT

The Suriya Mal Movement was founded in 1931 by the Ceylonese Ex-servicemen's Association, with Aelian Pereira as its founder President. This movement sold Suriya Mal on November 11th (Armistice Day) to counter the sale of Poppy Flowers on that day. At that time our rulers were the British and to curry favour with the rulers, large sums were contributed by the Government officers and others to the Poppy Fund. A major portion of the poppy fund collections was sent to Britain, to be distributed among the disabled ex-servicemen and the dependants of the dead soldiers there. Only a fraction of the collections was kept back and distributed among the Ceylonese ex-servicemen and dependants of the Ceylonese dead soldiers. The entire Suriya Mal collections were distributed among the Ceylonese ex-servicemen and the dependants of the Ceylonese dead soldiers. Miss Doreen Young and Mr. S.A. Wickremasinghe were among those who actively worked in support of the 1931 campaign for the Suriya Mal Movement. Speeches at meetings and letters to the editor by them, were published in the newspapers. Miss Doreen Young described their campaign in one of her letters to the editor as the "Battle of Flowers". Some of the speeches and letters to the editor, were on the basis of opposing an anti-national and imperialist cause with a national one.

In 1932, no arrangements were made by the Ceylonese Ex-servicemen's Association to sell Suriya Mal on November 11th. Aelian Pereira was a Magistrate and after retirement he started practice as a lawyer. I, as a fellow practitioner, came to know him very well. While talking to him one day, I asked him why his Association stopped selling Suriya Mal for 1932. He told me that the movement took a different turn from its original purpose and as such they gave it up. What he meant was that instead of confining itself to helping the ex-servicemen and dependants, those who volunteered to help them gave it an anti-imperialist and anti-war orientation.

RECONSTITUTED SURIYA MAL MOVEMENT

In 1933 the Suriya Mal Movement was reconstituted with Wilmot Perera, Corbert Jayawardene, Dr. S.A. Wickremasinghe, Mrs. Doreen Wickremasinghe, and others participating. Subsequently an executive committee was formed of which the above mentioned persons, Mrs. Selina Perera, myself and others were members. The proceeds from the sale of Suriya Mal were utilised for social work. During the malarial epidemic of 1934-1935 the members of the Suriya Mal Movement did good relief work in the malarial

stricken areas. Among the social work done by the Movement, was the education of a Rodiya girl, to come up in the nursing profession.

LANKA SAMA SAMAJA PARTY

The Suriya Mal Movement was the first organised grouping of leftist in Sri Lanka and I was one of them from its inception. The socialists and communists of the Suriya Mal Movement, together with some others who believed in socialism, formed, in December 1935, the Lanka Sama Samaja Party, that is, the Socialist Party of Ceylon. I was appointed its Literature Secretary. All these activities were the direct and indirect results of the October Revolution. To complete the narrative, in 1940, I with other communists left the Lanka Sama Samaja Party, because of its turn towards anti-Sovietism, and formed the United Socialist Party. This was the precursor of the Communist Party of Sri Lanka, which was founded on 3rd July 1943.

GENERALISSIMO STALIN'S SPEECH ON REVOLUTION DAY

Now I wish to describe some incidents of the second World War. Hitler Germany suddenly attacked the Soviet Union on 22nd June 1941, abandoning the Soviet-German Neutrality Pact entered into in 1939. Because of the elements of surprise, the German army was able to capture large areas of the Soviet Union and was able to come up to within six miles of Moscow. The Soviet government had to be removed to Kuibyshev.

On November 7th, 1941, the Revolution Day celebrations were held at the Red Square in Moscow, though the enemy was within six miles of Moscow. I, as a staunch supporter of the Soviet Union, tuned in to the English channel of Radio Moscow, and listened to Generalissimo Stalin's speech at the Red Square on that day. In his speech he set the true situation in the war front and the reasons for the rapid advance of the enemy into a large area of their country. Then he set out the military strength, as it existed then, of the enemy and that of the Russian Army and air force, and of the possibility of halting the further advance of the enemy. Then he set out the factors that were in favour of the Russians and the factors that were detrimental to the enemy, and the reasons why they could and should halt the enemy and send him back. Stalin said that the enemy should not be allowed to take one step further into Russian territory. At the end of the Revolution Day celebrations, the Russian army marched from the Red Square direct to the war front, which was just six miles away. The German Army was halted and the Russians began a vast counterattack, the high points of which were the repulse of

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FEUDALISM, CAPITALISM, SOCIALISM

The Way Forward

Gail Omvedt

Gail Omvedt was born in 1941 in Minneapolis, MN, USA, obtained her PhD from the University of California, Berkeley, 1973; taught a few years at the University of California, San Diego, then resigned to live and work in India. Living in India steadily since 1979 and an Indian citizen since 1982, she is married to Dr. Bharat Purohit, a fictionist active with farmers' movements, environmental movements and women's issues. Ms. Omvedt has held several consultancy positions and visiting professor posts, including a year as Associate Chair Professor at NISWASS (National Institute of Social Work and Social Sciences) in Udaipur. Since August '97 she has been a Professor of Sociology at University of Pune. Her publications include *Cultural Revolt in a Colonial Society* (Pune 1976, her PhD dissertation on non-Brahmin movement in Maharashtra); *We Shall Smash this Prison: Indian Women in Struggle* (Zed Books, 1979); *Reinventing Revolution: India's New Social Movements* (M E Sharpe, 1993); *Defts and the Democratic Revolution* (New Delhi: Sage, 1994); *Dalit Visions* (New Delhi: Orient Longman, 1995). She is active in women's movements, especially with rural women; environmental and anti-caste movements, and farmers' movements.

"In the social production which men carry on they enter into definite relations that are indispensable and independent of their will; these relations of production correspond to a definite stage of development of their material powers of production. The sum total of these relations of production constitute the economic structure of society — the real foundation, on which rise legal and political superstructures and to which correspond definite forms of social consciousness. The mode of production in material life determines the general character of the social, political, and spiritual processes of life. It is not the consciousness of men that determines their existence, but, on the contrary, their social existence determines their consciousness. At a certain stage of their development the material forces of production in society come into conflict with the existing relations of production, or — what is but a legal expression for the same thing — with the property relations within which they had been at work before. From forms of development of the forces of production these relations turn into their fetters. Then comes the period of social revolution...." Karl Marx, Preface to a Critique of Political Economy.

BEGINNING POINT

The "new social movements" of the last two decades have contested not only the new and varying forms of exploitation in society, but also

the claim of Marxism to have a privileged analysis of these. In bringing forward the importance of caste, of patriarchy, of state oppression, of the relationship with the earth we live on, they have demolished the political claims to working class vanguardism and challenged the theoretical claims of the primacy of class.

Still, even if we deny that the "mode of production" is fully adequate to understanding history, the insights offered by a historical materialist analysis provide, not a readymade answer but a crucial beginning point to grasp the nature of our times. One of these, which gives a creative foundation to integrate with our other themes, is Marx's notion of the connection between technology and social relations, summarized in the above quotation. It is worth thinking about this insight — for, we argue, there are crucial inadequacies of its traditional (or "classical") interpretation.

Marx had a vision of history not simply as "class struggle" but as a forward movement, including the development of human capacities, fueled by technological advances and driven by contradictions. Societies were seen not simply as representing exploitation and human enslavement (had this been so it would have been a philosophy of gloom rather than hope), but as advancing the possibilities of a liberated and equalitarian society. Each changing mode of production carries forward this potentiality in the face of alienation and contradiction. And the basic driving contradiction is between the unfolding of these forces, and the social relations and institutions which at first had helped their advance and now become a barrier. The step from the kin-based society of primitive communism was a step into slavery but also one

into agriculture, which could multiply food production to support not only an increased population but also a leisure with time for art as well as warfare. Freed slaves settled on and advanced agriculture production until this advance and the trade it led to brought pressures for change that feudal bondage could not contain. Capitalism brought with it a new form of slavery, and new colonial conquests, but also unleashed the potentialities of industrial technology.

Capitalism has thus never been simply condemned in Marxism, and Marxists have not hesitated in choosing it over feudalism — not only because of its location on the path forward, but because the forms of human freedom it gave birth to were real. The Marxist critique of capitalist society was not a romanticist critique of existing exploitation and alienation, in a name of the organic traditional community, but rather a critique that pointed to the fact that in the process of developing these new forces of production, the capitalist relations had turned into barriers holding the forward movement of humanity.

It is at this point, when the critique becomes a material reality, that the moment of revolution begins.

We stand now at such a moment of revolution, only it is going unrecognized since all the institutions of a statal capitalist societies, including the traditional Left parties, are too tied to the industrial mode to analyze it. The new contradictions of a post-industrial capitalism, new in relation to the role of decentralization and centralization, the significance of property rights, the role of the working class — all need to be examined.

MARXISM'S MAJOR HIATUS

The Marxist vision itself has faltered in one respect regarding the analysis of capitalism and the road to socialism. As noted, Marx saw the movement of change, the pressure for revolution, coming about because growing forces of production lead to contradiction and clashes with relations of production which, at one time progressive, now become retarding, blocking both the liberator development of technology and human relations. In precapitalist relations of production, the new society or new mode of production emerging after revolution has been seen as having both a different and more advanced technology (forces of production) and different relations of production from the old society. For example, slave society involved new technologies of agricultural production as well as new forms of domination and exploitation; capitalism contrasted with feudalism both in involving wage labour and capital and in being based on industrial production rather than agriculture.

But what about the case of socialism? There is a major hiatus in that Marxists have seen the emergence of socialism in a different way from that of earlier societies. Perhaps it was the inevitable failure to envisage really radically different technologies — who in the 19th century could even imagine the computer, the nuclear bomb, cloning? For whatever the reason, in contrast to earlier modes of production, socialism was seen as being based on the *same* forces of production as capitalism — fossil fuel-based industrialism — only with different relations of production. In this case, rather than new forces of production emerging in the womb of capitalist society and being held back by the domination/bureaucracy and hierarchy embodied in capitalist relations, Marxists have tended to assume continually growing industrial technologies which concentrated power and domination but which were held back by the anarchy of capitalist relations and the inability of human society under capitalist individualism to control these. Control by the working class (exercised through the state) was seen as the essence of socialism; the failure of control as inherent in capitalism.

The basic contradiction of capitalism was thus presumed to be between the growing elements of control and power inherent in industrial technologies and the "anarchy" of the capitalist market and private ownership. Lenin embodied this notion when he called imperialism "the highest stage of capitalism," only one step away from socialism, precisely because it brought domination and centralisation beyond the nation-state, to the world stage, completing a process of development that could only culminate in abolishing private ownership. Marx, Lenin and those after them saw revolution in changes in the state and economic social relations, but there was no revolutionary change foreseen in socialist forces of production.

It is for this reason that any signs of growing state power and management, state interference in the economy, nationalisation, welfare state etc. have been seen as steps toward socialism. Marxists have tended to be statist, interpreting socialism in statist terms and seeing advances in state control even under capitalism as a step forward, because they have seen these as part of the forward movement of the forces of production.

STATE AND CAPITAL

This dominant view, however, makes two major mistakes: it does not (could not, perhaps) identify the real nature of emerging technologies; and it failed to see the role of the state and coordinated management within capitalism itself.

To begin with the second point, capitalism from the beginning has required the state, not simply to control dissent and repress popular movements, but for coordination and capital accumulation itself. The movement towards centralisation, utilizing state power at times, has been a movement completely within capitalism. Theories of "monopoly state capitalism" perhaps saw this, but in many ways state-favoured monopolies have been inherent in capitalism from the beginning. Liberalisation, the *laissez faire* state and its ideologies, have been also moments — but they have been less typical than capitalists seeking government support. Even in Britain, the first industrializing country, it was merchants who supported "free trade" as against industrialists who wanted protection from Indian textiles, while in its ex-American colonies agrarian-oriented capitalists (such as the American republicans, Jefferson, Tom Paine and the like) wanted an open economy more than the industrializers like Hamilton. Later industrializing countries gave a more conscious role for the state, leading Marx and Engels to mock those who saw socialism only in terms of state ownership as "Bismarckian socialism." Indeed it was not the momentary development of English "free trade" which set the theme for emerging capitalism, but the Bismarckian focus on building a powerful industrial nation capable of war and imperial conquest.

Violence and state power have been inherent in capitalism from the beginning; the age of Columbus has been the true marker of the "modern" world. Marx saw this when he wrote of "violence as the midwife of history", though the greatest amount of violence was exercised in the third world. The state is not just the "managing agency" of the ruling class, it is interwoven indissolubly with economic power and helps to constitute a ruling class that is bureaucratic, managerial, dominating, profiteering. In this sense, Max Weber's focus on bureaucratization and rationalization as linked to capitalism has been an important addition to Marx.

"Statism" strategies do not represent a movement away from capital or an opposition to capital; rather they characterize and help constitute capital at all its stages. While "welfare state" reforms also led to certain contradictions for national capitalism — what some have described as the "profit squeeze" — nevertheless these also were a response to working class and mass demands that maintained corporate and state power. Similarly, the regime of subsidies plus favoritism for industries (a modified version of the Nehru model) that the Left in India still promotes represents a strategy of capitalist development but not the most equalitarian one nor one that holds any potential in itself for moving beyond capitalism.

NEW TECHNOLOGIES AND HUMAN AUTONOMY

Moving beyond capitalism requires a strategy that understands the newly emerging forces of production, not one that still looks to the world as if steel and cement were the signs of technological power. These new forces are most potent in two areas: communications technologies, and biotechnologies; both absolutely unforeseen not simply in the period of Marx and Lenin, but even half a century ago, when newly independent countries began to seek economic self-reliance through industrialisation.

Since the late 1970s a consciousness of the fact that information and communication technologies represent not simply a development of industrialism but something totally new has been growing. Alvin Toffler, writing for popular consumption, described this as the "Third Wave": sociologist Daniel Bell talked of the "post-industrial society." The basis of production is knowledge and information, not stored up capital or machinery — symbolized by the fact that the richest man in the world today, Bill Gates, produces nothing "material" in the usual sense, his fortune has been laid in programming, in computer software and not hardware.

With new technologies have come new production processes. In the 1980s Marxists began to talk of "post-Fordism." Fordism itself had been analyzed as a kind of culmination of capitalist production (the concept was also a recognition of the fact that capitalist development was generating a fairly well-organised and well-paid industrial working class). The essence of "Fordism" was in mass production, in regulated and supervised assembly lines; standardized products (they can have any color car they want is as long as its black"); a segmented work force with well-paid workers in large national corporations who could be consumers of capitalist products along with underprivileged, "informal sector" workers and semi-free workers in the third world; large corporations with hierarchical command structures and identified with one nation. This "regime of capital" came to its height in the 1950s and subsequent decades, an

THE RUSSIAN REVOLUTION

A TWENTIETH CENTURY ENIGMA

Al Richardson

After studying ancient languages at Hull University, Al Richardson was a member of the Young Socialists, was later in Tony Blair's International Marxist Group and played a very active role in the Vietnam Solidarity Campaign in the late sixties. Subsequently he formed a group known as the Cherubs. Co author of two books on the history of British Trotskyism, he has been active as the editor of the journal "Revolutionary History" since 1988. He works as a history teacher in a working class school in inner London.

The ages of 60 years since the October Revolution should allow us some pause for reflection, an opportunity to consider some ideas about it. It is a time that less than a century is a pitifully short time span against which to measure the significance of world events, which can only be done in the long run. But to follow this logic too far we will never be able to talk about anything important at all. In the long run, as the wise say, we're all dead.

It has to be said from the start that a reassessment is unorthodox, for, now that the fate of the revolution has been decided in its country of origin, at least for the time being. Our main task here is a methodological problem, and does not in fact, result from the discovery of fresh facts and data. For in spite of the claims of those who wish to build a reputation on sensationalism, in striking contrast with the Stalins, the release of new archival material hardly alters the main lines of our picture of the Soviet Union under Lenin in any dramatic way. The only two examples that spring immediately to mind are the revelation that it was Andrei Vishinsky, as district chairman, who processed Khrushchev's order for the arrest of Lenin in 1917, which explains the fact Stalin had over-ruled at the time of the Moscow Trials, and the publication of Lenin's speech to the Fifth Congress on 22 September 1920 showing the extent of his strategic planning for the spread of the revolution in Europe. It can now be affirmed from this that the attack on Poland which led to defeat in the Polish War by opening up a gap in the Russian line was not due to any desire on the part of Stalin to emulate Tukhachevsky, but to Lenin's strategic aims for the revolution at the time.

It is not the discovery of such data that calls for a new discussion, but the shock produced

throughout the world by the collapse of the regime itself. We can only look at the past through the eyes of the present, for history is the intellectual form in which societies decide for themselves the meaning of their own past. Not surprisingly, the fall of the Soviet Union has led to demoralisation and bewilderment among Marxists and other supporters of the socialist cause, and jubilation in the enemy camp. But neither history nor the class struggle have ended, in the making of ideas any more than anywhere else. The conflict of ideas has been joined with renewed vigour, and history is its main battleground. Since there is always some advantage to be gained in a survey of the terrain, this little sketch will therefore introduce other ways of interpreting the revolution in its new context.

'ABORTED DEMOCRACY' MYTH

One idea steadily gaining ground among establishment historians is that the Bolshevik Revolution cut short Russia's democratic development, forcing it to make a bloody detour at enormous cost for two generations. This is, of course, no new idea, but a very old one, rising again from the grave to haunt the living.

Needless to relate, no new facts have been produced to make it any more convincing than Khrushchev was seen to think his 'Crucifixion of Liberty'. In fact, an examination of the national and international context of the revolution rules it firmly out of court. For a start off, the Provisional Government was no government based on liberal democratic principles. It was simply a committee of the ex-Tsarist Duma, which was not elected by universal suffrage but by class voting. This was no parliament, but a medieval estates system, which shows just how backward Russia was, since

it took a 'red workers' revolution in 1905 for it even to come into existence. As Max Shachtman once said about Khrushchev's argument: 'Who elected you, our lady?'

It is fairly obvious also that its successor, the All-Russian Constituent Assembly, could never have set up a government capable of running the country, and would not have wanted to make a liberal democracy work there: must be liberal democratic parties. Russia had come to the simple reason that the country itself had prevented any growth by monopolising the apparatus of state or so on. By September 1917 the Constitutional Democrats' leadership had proved that they were neither constitutionalists nor liberals, since they supported the Kornilov coup, an attempt to set up a military dictatorship. In this they were joined by Savinkov, who had been head of the terrorist organisation of the Socialist Revolutionaries. The rapidity with which the other parties that had supported the Constituent Assembly surrendered their allegiance to the governments of the White Guard generals afterwards shows that what they would have done with the power if the Bolsheviks had not dispersed them.

A proper examination of the international context also shows that the choice for Russia in 1917 was between the Bolsheviks and a military dictator, and that (Western) European-style bourgeois democracy was no alternative at all. What needs to have been forgotten is that it was not one ancient empire that fell during that decade, but five, and not one of them was followed by a liberal democracy. The first to go was the Manchu Dynasty in China in the 'Double Ten' revolution of 1911, which began with prominent Yuan Shikai, then the zaibatsu and finally Chiang Kai-shek - all of them military dictators of various degrees of immorality. The

Ottoman Empire was succeeded almost immediately by the regime of Kemal Atatürk. The Habsburg Empire was followed sooner or later by one man dictatorships in all the successor states except Czechoslovakia, whether aristocratic (Hungary), royal (Yugoslavia), military (Poland) or clerical (Austria). After the 14 troubled years of the Weimar Republic, Hohenzollern Germany produced the worst nightmare of all, Adolf Hitler. We are even in a position to be able to guess at the character of the regime that would have followed in Russia, had not the Bolsheviks seized power. One of Trotsky's more perceptive remarks is that Russia spans both Europe and Asia, in a social as well as a geographical sense. Her western lands bordered on Versailles Poland, where after 1926 Pilsudski held sway, and her eastern on China, whose ruler was Chiang Kaishek. Whichever White Guard General emerged successfully from the civil war, he would have set up a regime midway in ferocity between these two, hardly a pleasant prospect to contemplate.

It is, moreover, questionable as to whether the Bolsheviks 'seized' power in the first place. Barely a dozen were killed. Rather they picked it up from the gutter. The Provisional Government had always been an unstable balancing act, relying on the support of the Petrograd Soviet on the one side and the ex-Tsarist establishment on the other. By October 1917, it had lost the support of both, hung in mid-air, and was about to fall anyway. The Mensheviks and SRs had lost their majority in the Soviet to the Bolsheviks, and the part played by the Cadets and the military in the Kornilov coup showed that the Provisional Government had lost the support of the establishment as well. It was bound to be overthrown from either the left or the right. It was the right that made the first move, and its failure made the victory of the left a certainty. Revolutionaries do not have the luxury of coming to power at times of their own choosing, and must seize the power when it is there for the taking.

CLASS AND STATE

If we therefore dispense with the childish idea that it is possible to change the course of history by a conspiratorial coup, where does this leave our understanding of the state that was set up? What is its place in history? Why did it develop as it did, and fall as it did? I do not propose to answer the first question in the formalistic way in which it is generally debated: whether this state was Socialist, a workers' state, state capitalism, bureaucratic collectivism, or whatever. All of these answers have a certain amount of validity, but taken together they remind us of the story of the blind men examining the elephant. What is obvious is that this state was set up in 1917 by a workers' party enjoying the support of the majority of the working class and resting on its institutions. But the working class hardly amounted to 10 per cent of the

population in the first place, and by 1921 the production figures show that Russia no longer had a working class. When it was recreated by a terroristic state after 1927 it no longer had its own institutions, still less control of the government. It is a pointless exercise to argue exactly how this state should be defined at any one point in its evolution down to its collapse. Anomalous state formations have lasted for centuries in history, let alone decades. For this state form was obviously unstable, a crisis state with a life span of not even a century. Far more important is to establish the direction of the process. By the end of the Civil War, Russia was an ex-workers' state, but it has collapsed into a purely bourgeois state only in the last decade.

It is far more fruitful to examine how the ruling political and managerial strata, who owed their positions in society purely to their relationship with the state, managed to convert authority into ownership, to move from being a governing caste to being a ruling class. The political establishment divided - all the old stuff about Communism, Marxism, and Leninism had to be junked, along with the personnel responsible for it. This meant an end of all the ideological apparatus of the Communist Party, meaningless as it had been for a considerable time. But that part of the state devoted to purely administrative functions remained, and fused with the technocracy and the factory managers to form a new élite.

Again, we are on familiar ground historically. No ruling class is ever produced out of nothing. New classes coming into power are generally made up of a fusion between fragments of previous élites and classes newly produced. A section of the English aristocracy, for example, contributed to the new bourgeois order by investing in trade from a very early date. The state as such was hardly in existence before religious and civil offices became hereditary in Sumeria and ancient Egypt, and they could be both bought and sold along with the incomes attached to them. History has many examples of how what had previously been élites and castes developed into classes.

Explaining how this situation came about does not, of course, explain the place and function of this regime in history. That can only be done by examining what it did, and how it developed. Now the immediate task of the state set up in 1917 in its own geographical area was to develop the economy, expand industry and generalise wage labour, normally defined to be the historic functions of a bourgeois class. This is what the state did, in effect, with the five year plans. But since Russia had no entrepreneurial class, the state substituted for one. The history of the USSR can thus be defined as the fulfilment of the tasks of the bourgeois revolution in the absence of a bourgeoisie. Can we accept this formulation, while

continuing to deny that the regime was capitalist? I believe we can. The world is full of examples of regimes, generally military dictatorships, that undertake these same functions of capitalist modernisation in the absence of a real capitalist class. Once economic development has reached a certain stage, and such a class has been created, it is then in a position to inherit its rightful state functions as well. It could be said that what happened in the USSR is a mirror image of this process, in a state that destroyed its embryonic bourgeoisie in a workers' revolution. But in fact, the truth is the other way round. The present military dictatorships are mirror images of the Soviet Union in the bourgeois world, for the USSR was the first state to undertake this process.

It might be argued that this analogy is invalid, since those military regimes that substitute themselves for an as yet undeveloped bourgeoisie have no other logical path of development, implicit or intended. The Soviet Union, on the other hand, was created as an integral part of the world socialist revolution, an entirely different project. But since the expectations of this revolution did not materialise in the post-war period, was not this new state then placed in precisely the same historical position as the others? Engels had some important points to make about this type of historical conundrum a century and a half ago: 'The worst thing that can befall a leader of an extreme party is to be compelled to take over a government in an epoch when the movement is not yet ripe for the domination of the class which he represents and for the realisation of the measures which that domination would imply... What he can do is in contrast to all his actions as hitherto practised, to all his principles and to the present interests of his party; what he ought to do cannot be achieved. In a word, he is compelled to represent not his party or his class, but the class for whom conditions are ripe for domination.'

So far we have dealt with questions that are easily answered, however inadequately. But the main question posed by the Russian Revolution remains unanswered. It is clear from Lenin's Imperialism that the Bolshevik seizure of power was based upon the assumption that we are living in an epoch of wars and revolutions, in conditions that are not only ripe, as Trotsky said, but rotten ripe. The world revolution of the working class, so eagerly and so imminently expected in 1918, has not taken place. Eighty years later the state set up by Lenin's revolution no longer exists. Now Marx always said that a social system does not depart from the stage of history until it has exhausted all its creative potential. Does this mean that the Bolshevik Revolution was premature, and that this explains the peculiarities of its evolution and its anomalous state form? The future progress of the class struggle alone can supply the answer.

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ers of US dominance.

The concept of "post-Fordism" recognizes that this is in the process of dialectically changing: we hear of "flexible specialisation," of corporatism, "downsizing" and "restructuring" and "flattening"; no longer are consumer goods standardized and mass produced, but rather specialized with endless variations; "just in time" production is the key to filling the needs of varied markets. Computer technologies, rapid transmission of information, makes it possible to diversify products and supply them rapidly according to order. Design and information are keys to production, just as education is the key to personal capabilities.

"Post-Fordist" information society requires an educated and flexible work force. In the classic stage of industrial capitalism the capitalist purchased the labour power of the workers and set them to work according to rule and regulation, with job tasks determined from above and standardised. Adam Smith's example was the tremendous number of pins made by workers specialising in one small part of a hand made task. In this process no thinking or initiative was required from workers; it was ever unenterprising. Capital's command over workers and capital's monopoly of knowledge appeared "natural," in contrast to the series of independent crises and seasons of the feudal period whose non-knowledge however limited by ecology and scope and traditionally determined, of life and production processes was inherent to production. Industrial capitalism thus appeared as the age of "deskilling" of the work force and alienation of workers from the process of production itself.

But in the information age, where diversification of production and rapid response to production demands is the key, the work force must be not only skilled and educated, but have autonomy to act quickly in terms of the needs of production. Rather than a base of workers toiling robot-like on assembly lines, with a hierarchy of supervisors and staff in a tight hierarchical structure over them, the former type of control over the workforce becomes counterproductive. The "workspace" replaces the assembly line; the tightly defined job description vanishes as work tasks shift; the work force itself gains in autonomy. Corporations "downsize" shed workers but take on others; and frequently the downsized workers find other sources of income in small businesses or even home-based enterprises of their own. The greatest losers in this are the former "organised sector" workers, the "hard of the job" like *Forlane* magazine itself once published: the end of clearly defined and permanent tasks, the life and movement is endangered, the "hard of the job" is not the end of work — but requires a new orientation of work.

The corporation itself is "restructured", hierarchies are "flattened", departments tend to be more autonomous within the job processes

and subcontracted out; company materials may be leased out; inventions and patents are purchased, twice or designs may be hired anywhere. The production process itself becomes worldwide with easy electronic transmission of information and designs. Institutions of all kinds race to new frontiers and new global reach. The information age is inherently an age of globalisation; one indication is the fact that the amount of telephone calls by US citizens abroad, to take one indicator, jumped from 25 million in 1970 to 40 million in 1990 — a whopping forty per cent fold increase. Similarly, it is estimated that roughly one-fourth of all US households now have PCs; the figure is about 12-13% for African-American and Hispanic households.

Biotechnologies, in some ways even newer than information technologies, represent new forces in ways perhaps even less understood. They are in some ways like information technologies: generate information which determines how something will grow; and it is this information which is studied and changed.

Biotechnology represents the marriage of science and agriculture — in which growers tend not musing, forgetting merged with inventing. In some ways the world of agricultural society offers for the information age as much a model of relationships as the world of industrial society. Just as land is nearly a universally available means of production (with peasants, in the typical feudal society, held down by force and domination) so knowledge becomes a nearly universally available; patents become an artificial form of limitation. Just as the smallholding family farm could be an efficient unit of production, so in the information age a small, cooperating and flexible work team likely found in the family functions effectively. However, in contrast to agrarian society, the core of work is globalized and mobile; people are no longer bound to the land, and community has to be constructed in entirely different forms. The new society is "postagricultural" as much as "post-industrial" — which means that basing a model of socialism on the romantic images of an idealized traditional community and forms of production is just as illusory as basing it on a projected version of a commandist factory production.

These new forces of production hold potentialities and dangers; dangers, of course, when controlled by state and capital, of renewed hierarchies, domination, exclusion, unemployment, misorganisation — but potentialities of producer and human autonomy that can make possible a new liberated society.

THE CONTRADICTIONS OF CAPITALISM TODAY

Marxism identifies contradictions as the driving force of socialist development. The

contradiction between the forces of production and the relations of production — as summarized in the passage at the beginning of this article — is underlying, but it reflects itself in various ways in struggles between social-economic groups. Traditional Marxism discussed these as "class struggle" and "national liberation" was added to this in the third world; but today all kinds of gender, racial, caste and ethnic groups in turn are bringing forward their issues.

1) The basic contradiction between emerging, advancing forces of production and now outmoded relations of production was wrongly interpreted as being between the "ownership" of private property and centralized forces of industrial production and it was thought that only a collective "social" capture and control of these forces would resolve the contradiction. However, now it is clear that capitalism/statism gives rise to forces of production (technologies) which hold the potentiality of land which can only realize themselves under conditions of decentralised, self-reliant, autonomous production by innovating, entrepreneurial, humanly developed persons and groups. The conflict between these groups and the outmoded state capitalist social relations of exploitation and domination is expressed in a multitude of ways. In which people come into conflict with the state and capital. Aspects of these contradictions are expressed in the growth of new social movements, with flourishing networks of associations and interacting new kinds of NGOs — not only those dependent on foreign funding — and the rise of what many Marxists describe as "civil society" in contrast to both state and market.

Many Marxists have expressed socialism as control of the "associated producers" over the market, as opposed to simply state control. But while this emphasis avoids a statist perspective, we must still question the economic of seeing humans only as "producers"; one aspect of contemporary contradictions is the assertion of all-around human capacities (including love, spirituality, play) against the pressures of work and production; the emerging growth of productivity brings this to the fore. We can instead speak of the flourishing power and autonomy of all kinds of human associations — working social, religious, artistic, etc. both state and market. Some kinds of political and some kinds of market mechanisms will probably always be necessary and useful, but whether state or market can be allowed to dominate human lives.

2) Ideologically, the notion of capitalism brought forward the individual as an ideal, self-realizing, ever striving, against the bonds of racial community, a type of community based on immobility and birth-defined membership. Liberalism saw private property as essential for the realization of the individual, state property provided a basis for autonomous action and freedom from the alienating necessity of capitalist

forms of work. Now, the individual has to be seen more as involved with community, with ever-changing and growing communities, creating communities and self-expression through ties with others.

At the same time, the very meaning of property changes. The contradictions involved in property were expressed within capitalism with the growth of propertylessness on one hand and concentration on the other. Two ways out were brought forward, and have remained demands of working class movements: the generalisation of property relations ("land to the tiller" type of programmes, emphasized more in agrarian movements) and the abolition of property relations. But in industrial capitalism the ideal of property for all was backward-looking and illusory since the centralisation (above all of property and control) was a necessary step for development of productivity, and proletarianization in turn was necessary to generate a working class ready to accept factory discipline. At the same time, abolition of property was also illusory and ended in statism.

However, "intellectual property" is crucially different from more simple material property. Whereas land and capital could be and needed to be under control of one person (even if that was a fictitious person, a corporation), information is inherently shareable — it is "kept" even while it is "given away"; and understanding itself grows in the process of sharing. Thus the theme of "generalization of property" rather than an illusory "abolition of property" which seemed only a backward-looking "small producers" solution in the age of industrial capitalism, makes sense today on the basis of technology itself.

In the information age, the most crucial property is in knowledge and skills. This makes education and training more central than ever. Property in "knowledge" has become a core human right. Societies/parents pass on an inheritance to their children by seeing to their education. People need access to resources (individually as well as through their communities) but to make this useable, education and the development of the skills and capacities of the basic producers is more than ever a necessity.

(3) Toilers (the masses seen in their productive function) still represent an important force for revolutionary change. But it is no longer possible to see the largely male industrial proletariat concentrated in the factories of the capitalist centers as representing some kind of vanguard force. The very nature of the proletariat and its needs has changed. Early industrialism appeared to generate a solidified and immiserated proletariat; "with nothing to lose but their chains", ready to make the revolution for all. When the process did not happen and instead a segment of highly organized, relatively well paid factory workers emerged in the "Fordist" stage of monopoly capitalism, it was still possible to see

this unionized force as one which could provide leadership to all the diversified and segmented producers (informal sector workers, housewives, domestic laborers), in fighting to control capital and lead the welfare state.

In "post-industrial capitalism" however, the working class itself is not simply segmented but fragmented and dispersed; hierarchy and differentiation remain but there is no centre, no core to provide a "vanguard." Farmers and factory workers, intellectual workers who deal in symbols and design, domestic workers and health workers who nurture, are all central to the functioning and development of human society. The new social movements of the period of post-industrialism have expressed in practice this rejection by feminists, farmers, oppressed races and castes of a proletarian leadership, indeed a rejection of all traditional forms of representation, and the material base for this rejection is in fact the rise of new technologies and production processes. The question of organising the working class now means organising (and taking the issues of) a vast variety of toilers — farmers, domestic workers, self-employed, all who labour; no longer making a weapon of union but creating unity, not only within a nation but on a global scale. The working class movement is not a struggle for survival or a battle of opposing forces but a vast field of experiments in developing capacities, managing production, creating unity.

A brilliant feminist essay by Donna Haraway ("A Manifesto for Cyborgs"), first published in 1985 used the image of the "cyborg" to express the reality of the information age: part artificial, part natural, rejecting totalisation, transgressing boundaries, the cyborg represents the unification of a fragmented globalised humanity — but a unification achieved through recognising the validity of particularism, the validity of varied demands and needs; rejecting totalism, through alliance politics, not vanguard leadership. The "network" is another, largely feminist theme, that is much more based in the reality of computer-based communication, key to the form of organising in the information age.

(4) Nationalism and national liberation take on new meanings. Industrial capitalism and imperialism had gone hand in hand, ushering in a tremendous increase in inequalities among societies whose living standards had been roughly equivalent in the era of agrarian feudalism. In the era of Columbus and colonialism, the "national contradiction" meant gaining independence; in the immediate post-colonial period national elites justified their control as promoters of self-reliant "national development." But, building the nation meant developing the capacities and democratic control of all — but creating modern factories, dams, spacecraft, science, universities, and a disciplined workforce to "man" all of these.

Now, in the new era of globalisation, inequalities between "developing" and "developed" countries are no longer simply increasing; important

differences are emerging within the Third World and traditional dominance is shaken up. Inequality, impoverishment and backwardness remain but not simply as functions of direct colonial control but of the continued domination of an elite integrated into capitalism, of distorted development models that maintain traditional hierarchies, denying large sections of the people access to not only food but also knowledge. Now the national contradiction is differently expressed. The impoverished and exploited toiling people of societies like India had always fought for social justice, but now it is clear that this fight is in fact the real national struggle, a struggle for creating the true communities, including the national community, against the ascribed and inequalitarian "communities" of caste, locality and prescribed religions. Negatively, it is a fight against "brahmanism" (and patriarchy) which Ambedkar had defined as itself the negation of liberty, equality and fraternity; positively it is a fight for freedom through human development, education, creating a true community and associations, building the capacities to enter the modern world and exercise collective control over the forces of production.

(5) Finally the increase in human technological power, the ability to intervene in the deepest processes of life and nature, leads to an intensification of the contradiction between human society and nature. "Deep ecologists" tend to blame this on civilization itself. ("There were two intelligent species on earth," goes a brilliant passage in *Hitchhiker's Guide to the Galaxy*, "humans and dolphins. Humans believed they were superior because they had cities, civilization and all that. Dolphins believed they were superior for the same reason"); others blame industrial society and the market. But there is no ecological salvation in looking to agrarianism or pastoral modes of life; human intervention in nature in from the beginning has meant that hunting and gathering tribes have been responsible for species extinction. What is required is not the rejection of technological progress (since both the practice of agriculture and hunting/gathering can be ecologically destructive) but a sense of stewardship and restrained responsibility, a spirit of participation in natural life, the scientifically guided search for knowledge to achieve humane development, awareness of the dangers and difficulties involved both in attempting to control nature and human society (through "socialist" experiments) and humility before the wonder that the whole process involves.

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DEVELOPMENT PLANNING IN SRI LANKA - LLOYD FERNANDO

Of the great many crimes that can be attributed to the SLFP, one of the most important is that it gave socialism and every policy generally associated with it (such as planning and state ownership) a bad name. Though the SLFP and its allies talked about progressing towards being socialist, the indisputable truth is that neither the SLFP nor its policies were socialist or socialist-oriented. On the contrary they were state capitalist. State capitalism was a very common phenomenon in the Third World, particularly in the '60's and the '70's. The reprehensible and misleading practice of using the term 'socialist' to describe economies which were state capitalist, enabled many Third World despots and semi despots to cover themselves with the cloak of socialism - from Jai Amin of Uganda to Sirima Bandaranaike of Sri Lanka.

The chapter on Development Planning in Sri Lanka by Lloyd Fernando uncritically and naively accepts the SLFP for what it and its left allies (sometimes said it was) socialist, 'semi socialist' or 'socialistic'. "*Strong socialist bias*", "*socialist oriented policies*", "*socialist intentions*" (p.114); these are some of the phrases the author uses in describing the SLFP.

The author in his assessment of the period of '70-'77, goes on to identify the objectives of the "*explicitly socialist*" 13th Five Year Plan of the UF regime. The two major problems the Plan sought to address were rising unemployment and the worsening foreign exchange situation. The economic and social objectives of the Plan were: a) achieving long term growth; b) reducing balance of payment deficit and unemployment; c) eliminating wasteful consumption; d) raising living standards of low income groups by increasing housing and sanitary facilities and raising nutrition levels; e) modernising agriculture and setting agro-based industries in rural areas (p. 115).

The Five Year Plan should certainly go down in history - for its total and utter inability to achieve any of its stated aims. As the author himself states in the following page it resulted in "*a stagnant economy, shortages and black-marketeering of essential commodities, shortage of foreign exchange, a difficult balance of payments situation, low GDP growth and unemployment running at over*

20% of the labour force" (p.116). Add to this a negative growth rate in agriculture (-1.7% and a 11% drop in the growth rate of manufacturing from 12% in 65-69 to 1% in 70-77) and the picture that emerges is one of unmitigated disaster.

In giving reasons for this colossal and total failure of the Five Year Plan, the author displays a very great deal of charity - and attribute common to many of the contributors to this volume, whenever they are dealing with the disastrous performances of various SLFP led regimes! To quote: "*A number of unforeseen circumstances, however, affected the implementation of the Plan. Continuous drought during the plan period seriously affected agricultural production. The oil crisis of 1973 and the world-wide grain shortage had a devastating impact on the already precarious foreign exchange situation*" (p.11). In other words nothing wrong in either the Plan or its implementation; just that dreadful world market. And Mother Nature was the other culprit; not Mother Sirima.

The author then proceeds to comment on the anti planning attitude of the '77 regime and the fact that the '59-'94 regime did not come up with a Five Year Development plan despite a promise to do so. Going by the results of the previous efforts at planning, the citizenry can only breathe a sigh of relief. Anyway, the proof of the pudding, it is said (even by Engels), is in the eating. The performances of the 'anti-planning' Jayewardene regime and the 'non-planning' Premadasa regime were far in advance of the pre-planning UF regime. After all the Jayewardene regime did manage to achieve many of the goals mentioned in the inaugural budget speech (at least upto 1983); and under Premadasa, Sri Lanka made significant advances in most of the areas mentioned in... the "*explicitly socialist*" '70-'77 Five Year Plan i.e. high economic growth, balance of payments surplus, reduced unemployment, major advances in the provision of housing and sanitary facilities - just to mention a few.

According to the author, "*It is difficult to say to what extent planning in Sri Lanka was either helpful or damaging to its development process*" (p.123). Here, Dr Fernando, in a helpful indication of the worst socio-economic performance in the post-independence history of Sri Lanka happened at a time when "*comprehensive planning... was considered a crucial element...*" (p.174) i.e. during the '70-'77

period. Endeavouring to defend Sir Lanka's disastrous attempts at pseudo-planning (such as the comment by the author that the Ten Year Plan and the Five Year Plan were "*useful exercises*"!) can only serve to strengthen the anti planning sentiments even further. Instead it should be pointed out that there are many ways of planning and many types of plans. It is only by doing this that we can prevent the discrediting of the entire concept of planning. Therefore this is the only way of preventing planning from being consigned to the rubbish heap of history together with the 'closed economy'; and it is the only way to ensure that planning has a role in the Sri Lankan economy in the 21st century.

SOCIAL POLICY IN SRI LANKA - PATRICIA J. AJILIMA

Using a resource-rich national analysis and assessment can result in some actions which are not only erroneous but also completely absurd. This chapter provides an excellent case in point.

In her summary of this period of '70-'77, the author concludes: "*there was a marked broadening of the concept of social development in Sri Lanka so as to include not only improvement in levels of living through the provision of services and maintenance of minimum consumption levels. Fiscal and economic measures were used to achieve social objectives such as income distribution, changes in social institutions and attitudes, reforms in governance and greater public participation in development activity... The socialist commitment to safeguarding basic living standards was maintained*" (p. 154).

Compare this, if you will, with a subsequent conclusion by the same author in the same chapter. Talking about the "overall impact of social policy on the poor" she says that "*starting from a relatively favourable base year in 1970 a sharp deterioration evidently took place in the '73-'75 period*" (p.16b). As is obvious, the two conclusions (p.154 and 16b) are mutually contradictory. And unfortunately for Ms. Ajilima, only one can be correct.

What do facts prove? Let's start with the figures cited by the author herself:

- i. Death rates increased in '74 & '75 for the first time since 1946.
- ii. Some increase in school dropouts.

- iii. Slight decline in school enrolment rates.
- iv. Small increase in morbidity levels.

Consider these together with the following:

- i) Total number of pupils decreased from 2,829,070 in 1971 to 2,543,641 in '75.
- ii) Total Expenditure on General Education as a % of total government expenditure declined from 11.9% in 1972 to 8.2% in 1976.
- iii) Total Health Expenditure as a % of total government expenditure declined from 7.4 in 1970 to 5.8% in 1976.
- iv) Total number of schools decreased from 9736 in 1971 to 9683 in 1976.
- v) Total current expenditure on education as a % of GNP declined from 4.1% in 1972 to 2.4% in 1976.

In view of these facts, the author's first set of conclusions seem not just incorrect but really quite bizarre. *"Improvement in levels of living"* when morbidity and school dropouts increased and enrolments decreased? *"Socialist commitment to safe guarding basic living standards was maintained"* when death rates increased significantly for the first time in independent Sri Lanka? *"Government adhered to its commitment to provide the basic necessities of life at affordable prices"* when, in the words of a fellow contributor to the volume, there was *"shortages and black-marketeering of essential commodities"*? (Lloyd Fernando p.116).

As for the observation that there was *'greater public participation in development activity'*; what development activity? There was hardly any development activity - which was why the economy became stagnant. But for me, the piece de resistance is the author's comment that the *"strongly interventionist measures which were devised to deal with the sources of social discontent such as unemployment were innovative"* (p.154). In fact they were so very innovative that unemployment actually increased to an astronomical 24% by 1973!

I should also mention that I agree with the author when she says that the government succeeded in maintaining "minimum consumption levels". The government certainly made sure that the consumption remained at very minimum

levels indeed - by ushering an era of acute shortages and scarcities unprecedented in independent Sri Lanka.

The author also claims that there was a *"spate of social legislation"* (p.152) during this period and makes particular mention of the land reform and the ceiling on ownership of housing property. The point is how successful these two pieces of legislations were in addressing the problems of landlessness and housing respectively. My contention is that the first did not result in a decrease in the problem of landlessness and the second did not result in a decrease in the problem of housing. It was only the 1 Million and 1.5 Million Housing Programmes which caused a substantial decrease in homelessness while the problem of landlessness was adequately addressed only in the post '89 period - when, under the Presidential Land Task Force, more than 300,000 acres of state land were distributed among more than 400,000 landless families.

Ms. Alalima too subscribes to the point of view that the SLFP led regimes were more sinned against than sinning. The colossal failures of these regimes are always attributed to external circumstances such as the *"insurgency, severe drought conditions, increases in the international prices of food grains, unprecedented hikes in the prices of petroleum and petroleum products like fertilisers, world-wide inflation and currency instability, and a consistent fall in the external terms of trade"* (p.153). The author takes her role as an unabashed apologist of the SLFP so seriously, she even tries to find excuses for a development as shocking as the increase in mortality in a time of relative peace and normalcy by saying that *"death rates increased in 1974 and 1975 - perhaps resulting from acute food shortages and high food prices caused by drought which could not be ameliorated fully by provision through rations"* (p.165).

These laudable virtues of generosity and charity are, by contrast, markedly absent in the author's analysis of the post '77 period. She makes the point that *"the expenditure on the social sectors as a whole declined in the first half of the eighties due mainly to the rapid decline in the food subsidy and the fall in the expenditure on education, health and social services"* (p. 158). However, she omits to mention that Government Expenditure on Welfare as a percentage of the recurrent expenditure started declining not from '77 but from 1970! I request her to take a look at table 3.10 on page 78 of the

volume, as it is self explanatory. Her observation *"inadequate provision was made for essentials such as water supply, sanitation and furniture to schools and health institutions"* (p.158) is completely contradictory to her earlier statement that during this same period *"major investments were undertaken in the hitherto relatively neglected sectors of housing and water supply"* (p.156). She also makes the point that unlike in the period of '70-'77 when morbidity rates increased, during the post '77 period there was *"an appreciable reduction in morbidity..... in the area of immunisable diseases. For example, between 1978 and 1989 polio cases fell from 153 to 4, diphtheria from 216 to zero, whooping cough from 153 to 61, measles from 6000 to 780 and neonatal tetanus from 874 to 19"* (p.165). This important achievement she mentions without comment except for a dismissive remark to the effect that the diseases mentioned above *"constitute a minor part of total morbidity and the inpatient load"* (ibid.). It is also noteworthy that in her analysis of social policy in the post-77 period she does not mention either the free text books programme or the free school uniforms programme.

INCOME DISTRIBUTION AND POVERTY - W.D. LAKSHMAN

As in the case of the introduction, lack of objectivity is an important hallmark in this chapter. The author begins by commenting that income inequality increased between 1973 and 1978/79. The reason is: "since the structural and institutional changes and various redistributive policies of the early 1970s continued till 1977, with a major reform effort in the form of nationalisation of company estates added to that package in 1975, it is quite probable that this trend reversal occurred around the policy reforms of 1977" (p.174/175). He then observes that income inequality increased further between '78/'79 and '86/'87. However his analysis stops there and does not extend to the changes in income distribution in the '90's.

There would have been nothing remarkable about this except for two facts. Firstly the author *does* make a comment about relative income distribution in the '90's in his introduction to this volume: *"... the package of SAPs continued to produce extreme 'relative' inequality in the system"* (p.11). As I pointed out previously, he makes this extremely significant observation without bothering to substantiate it. Secondly his non-inclusion

of figures on trends in income distribution in the 1980s is curious (to say the least) because these figures are available and have been available since at least 1985. This poses several questions: Did the author know about the existence of these latest income distribution figures when he wrote this chapter? If so why didn't he include these figures in his analysis of trends in income distribution? If he didn't know of the existence of these figures, then how did he come to the politically and economically important conclusion that *'the package of SAPs continued to produce extreme 'relative' inequality in the system'* (p. 111)?

One can of course hazard a wild guess. Maybe it is because the latest figures show that income distribution has moved towards great equality between '85/'86 and '90/'91. In fact, the distribution of income in '90/'91 improved not only in favour of the poor but also the middle classes. For example the income share of the lowest 50% of the population improved significantly by 9.9%. The only losers were the highest 10% of the population whose share dropped by 12.8% between '85-'88 and '90-'91. Therefore it is little wonder that the author's historical overview of the trends in income distribution stops at '85/'87!

As for the author's comment that *'it is questionable whether the people at the lower levels on the social ladder were satisfied with the results of the policies of de-regulation'* (p.180), one can only point out that the electorate gave the UNP an unprecedented mandate at the presidential election of 1982 – which unlike the subsequent referendum, was unrigged and violence-free. The UNP's vote was higher than the 50.9% polled by the party at the general election of 1977. Another interesting point is that the UNP won in all the districts in Zone 4 which recorded the lowest mean income from 1973 to '81/'82 (table 6.8 page 182) – 53.9% in Kandy, 55.1% in Matale, 53% in Nuwara Eliya, 55.77% in Kurunegala; 58.7% in Badulla, 51% in Battaramulla and 52% in Kegalle. In the absence of any other data, one has to assume that, according to the available evidence, the people at the lower levels on the social ladder were not dissatisfied with the results of the policies of de-regulation until sometime after Oct 1982.

In his conclusions concerning poverty levels and trends in Sri Lanka the author states: *'No clear and sharp tendency, one way or the other, can be seen over the*

two decades from 1969/70 in regard to the incidence of poverty in the country. There was a mild tendency for poverty incidence to go down from the early 1970s upto about the early 1980s and a reversal, again not a very sharp reversal, of this tendency since that time. By the mid-1980s and the early 1990s, about a quarter of the country's population appears to have been in poverty' (p.204).

The only measure of poverty available for all the periods under consideration since '85/'86 is the World Bank Headcount Index I and II. According to both these indexes, poverty levels decreased substantially between '85/'86 and '90/'91 (by 4.9% according to Index I and 5.26 according to Index II). There are then has been a tendency for poverty incidence to decrease once again in '90/'91. The author did not make any comment on this – probably for the same reason he ignored the trend towards great income equality in '90/'91.

The author identifies social exclusion as one of the main factors responsible for the persistence of poverty. Among the various types of social exclusion he mentions are the following: *'certain social groups appear to have been favoured and certain others systematically excluded from limited income earning opportunities created'* (p.213); and *'most jobs were available in Colombo, other major urban locations and a few growth centres like the locations where the free trade zones were set up and other major development projects were implemented. A large proportion of the unemployed and the under-employed from remote rural areas was thus overlooked in the distribution of the limited available opportunities'* (p.214). Unsurprisingly, he does not make any mention of the 200 Gannan Facilitia Programme which was created and implemented precisely in order to address these two problems: by making poverty a sufficient qualification for employment and by taking industries to every remote corner of this country – including certain areas in the war-torn East and Mauniliya. The proof of the success of the programme is none other than the fact that the 16 regime is continuing with it despite heaping ridicule on it while in opposition.

In rounding off his discussion on income distribution and poverty, the author writes *'the behaviour of certain direct welfare indicators in Sri Lanka'* (p.216). He goes on to state: *'The state commitment to maintain this extensive welfare package had undergone perceptible changes since*

the introduction of the policy reforms of 1977 aimed at liberalisation of markets and promotion of 'growth'. Particularly important is the fact that the proportionate emphasis accorded to 'welfare' purposes in the allocation of government funds has been made to undergo a decline. Initially, in order to transfer more funds for 'growth' and in addition, in more recent times, to accommodate the growing defence expenditures' (p.218). Once again the impression given is that the relative reduction of welfare expenditure began in 1977, omitting to mention that this downward trend commenced in 1970, from 49.2% in 1969/70 to 38.9% in 1975/76.

The author's next point is: *'In the first five years or so after these reforms, a deterioration in some welfare indicators could be observed. For example, nutrition levels, morbidity conditions, literacy rates and school participation rates of children appear to have undergone a mild, yet a widespread, deterioration as between 1976/7 and 1981/82, according to the limited information that is available from the CBSs for the respective years. Similarly the indicators like the proportion of population reported ill, average number of days absent from work due to 'less serious' illness have all registered increases for the country and its different sectors between the same years (Central Bank (1983) & (1984))'* (ibid.). Once again the deterioration in a number of crucial social indicators did not commence in 1977 but during the '70-'77 period – such as death rates, school dropouts, school enrolment rates, morbidity levels, relative expenditure on education and health, total number of pupils and total number of schools. And though the author mentions that the social indices improved between 1982/83 and 1986/87, he maintains a deafening silence on the even more considerable improvement in these indicators in the '90-'93 period. Many of the social indicators mentioned by the author in Table 6.15 (p.217) improved significantly during the period of '90-'93.

In the final section of the chapter the author comments: *'In the pre 1977 era, the country succeeded in achieving a combination of some growth with social justice and improvement of social indicators, through extensive intervention of the state to provide free educational and health services and subsidisation of essential consumer goods'* (p.220). One fervently hopes he is not referring to the '70-'77 period, because not only did

economic growth grind to a near halt during this phase; many of the important social indicators such as mortality, morbidity, school enrolment, dropouts rates deteriorated. It was a period of low growth and very little social justice, with some equality - in poverty and want.

Having said next to nothing about the trends in income distribution and incidence of poverty in the post '89 period (despite the availability of data), the author proceeds to declare: *"In the post-1989 era, the approach taken by the government amounted to having a separate 'poverty alleviation' programme as a 'second leg' or an appendage to a basically market-oriented policy framework. Such a separate programme, either in the form of a safety net or a poverty alleviation appendage, is clearly necessary to look after the permanently unemployable few in the society. But such a separate strategy cannot meet the socio-economic needs of the very large numbers of people, capable and willing to work for a living, but are left to poverty and penury by the existing social system. Whatever is the policy framework, conscious and deliberate planning is needed to incorporate these groups into the mainstream of the economic system"* (p.220).

The author seems to be unaware of the fact that poverty alleviation was neither a 'second leg' nor an 'appendage' but one of the two main axis of the Premadasaist development strategy. It was a double-barrelled strategy or a policy bipod which gave equal importance to growth and equity/social justice. The poverty alleviation programme, Janasaviya, was growth oriented. It aimed at encouraging savings, investment and entrepreneurship; bank loans and training were provided to at least a segment of the recipients to achieve these goals. At the same time Premadasa's major efforts at achieving growth - such as the 200 Garment Factories Programme - were poverty alleviation/social justice oriented. This is best evidenced by the criteria for the 200 Garment Factories Programme: such as garment factories must be dispersed among AGA Divisions throughout the country; each factory must provide employment to at least 500 people; a minimum salary of Rs.2000/- a month plus other benefits such as a free breakfast, tea and medical attention at the work place; in recruiting workers, poverty must be the only qualification

i.e. priority should be given to poor youth, particularly those from JSP families. The fact that the Premadasa years saw a high growth and a decrease in income inequality and incidence of absolute poverty demonstrates the success of this approach.

At the end of the Chapter the author once again mounts his hobbyhorse: *"the guidance of economic policy in the post-1977 era by the international financial organisations to give first priority to growth and de-prioritise social welfare policies and poverty alleviation strategies. Though part of the 'welfare state' package was retained, part of it was almost totally dismantled. The adverse impact this has had on the poor strata of society was not adequately offset by the production effect of market liberalisation and private enterprise promotion. These policy reforms, in spite of large doses of foreign aid which accompanied them, could not soon enough bring the economy onto a path of rapid and sustained growth"* (p.221). This is just not true. The gradual de-prioritising of welfare commenced in the '70-'77 period; this period also witnessed the deterioration of a number of important social indicators; and the post '89 period witnessed a re-prioritising of welfare, which resulted in a marked improvement in a number of important indicators - particularly distribution of income and incidence of absolute poverty.

The author's concluding sentiments are: *"working out of a policy framework, intelligently and selectively, combining various measures to promote economic growth and social justice simultaneously, remains the challenge before Sri Lanka's policy makers"* (p.222). To this, there can be only one response: economist, read thy own writings. One cannot do better than quoting Prof. W.D.Lakshman to Prof. W.D.Lakshman. *"The second, and the more important, lesson is that a commitment to equitable distribution does not, and need not, necessarily thwart economic growth. As the analysis in a number of chapters to follow shows, the post-1989 phase of the programme of liberalisation and de-regulation recorded greater successes in terms of many economic aggregates than the 1977-88 phase, in spite of a commitment to a very expensive safety net and household transfer project in that phase. The lesson worth learning is that, in the special circumstances found in Sri Lanka,*

any policy package to be effective in promoting economic growth must embody two concurrently operating sets of measures: (a) to promote entrepreneurship and capital accumulation and (b) to improve social welfare and redistributive justice" (p.19).

THE STATE, STATE CAPITAL AND CAPITALISTIC DEVELOPMENT - SUMANASIRI LIYANAGE.

The major portion of this chapter obviously consists of summaries of and quotes from the books read (but not quite comprehend?) by the author in the recent past. It is difficult to comprehend why this chapter was included in the volume at all. Or in any volume, for that matter.

PRIVATISATION : AN OVERVIEW OF THE PROCESS AND ISSUES - SAMAN KELEGAMA.

After Prof. W.D. Lakshman, Dr. Patricia J. Alailima and Dr. Lloyd Fernando, Saman Kelegama's handling of this politically sensitive issue seems like an epitome of objective scholarship. It is a pity he did not extend his analysis to the privatisation efforts under the P.A. regime, particularly the privatisation of the Steel Corporation, Gas Company and certain plantation companies.

* * *

In the preface to this volume, the editor describes it as an "intellectual exercise". However (despite the inclusion of a number of objective and well researched pieces) the tireless efforts by the editor himself and some of the contributors have turned this volume into an unashamed and blatant apologia for the various Bandaranaike led SLFP/PA regimes. In fact they have gone more than the extra mile and have run a veritable marathon in their eager determination to damn the UNP and defend the performance of the Bandaranaike Trinity. It's a spray paint job, not a mere whitewash. Therefore each one of them can echo Edmund in King Lear with a clear conscience: "What you have charged me with, that I have done, and more, much more".

PRICE DISTORTIONS

One of the ways in which governments attempt to influence their economies is by trying to hold prices either above or below value. They would be in the essence of such policies. Such actions are undertaken either to correct what are assumed to be "private market failures" or to facilitate certain social goals like greater equality of income or faster growth. These governments set prices generally create severe distortions with consequent resource misallocation.

The key prices in any economy where price distortions occur are:

- 1. the price of foreign currency - the exchange rate
- 2. the price of credit or capital - the interest rate
- 3. the price of labour - the wage rate
- 4. the price of food

THE EXCHANGE RATE

This is one of the principal instruments of government control and devaluation of the Rupee has been extensively used to keep Sri Lanka's exports competitive in world markets. However there is the countervailing argument of its effect on the cost of imports, that constrains government action being taken only on behalf of exporters. There is a case for keeping, particularly those imports which are considered essential and contribute to development, relatively cheap. So government action here is a balance between two competing objectives both of which are important. In terms of the importance for a "free" economy of the play of market forces however, there is price distortion.

THE INTEREST RATE

The same dilemma of having to choose between competing objectives confronts the government in its regulation of the interest rate. An interest rate below that which would prevail if left to the operations of market forces, may stimulate investment by lowering the cost of capital. However a low rate may be unattractive to mobilize domestic savings which in a country like Sri Lanka with a very low savings to investment ratio is a basic need. Too high a rate on the other hand, while it may encourage savings and dampen inflation, would act as a disincentive to investment. There again there are competing interests which have to be balanced. Sri Lankan governments have been extremely wary about leaving the determination of such a politically sensitive issue to the vagaries of the market. Indeed the private sector itself consisting of various interests may not have an unambiguous view on what should be done in a particular situation.

THE WAGE RATE

Sri Lankan Governments have used the concept of a minimum wage to ensure for labour a minimum standard of living and to reduce poverty. However this may also constitute a price distortion if placed higher than that which the market will bear. It could well act as a constraint along with other conditions of employment which labour has won through collective bargaining, like non-termination of employment except in specified circumstances - to expansion of production and further employment for the mass of the unemployed. To that extent, while those in organized labour may improve their condition, the very success they achieve in winning their legitimate demands with the assistance of the government may be vis-a-vis counter-productive the government's own objectives in regard to resolving the country's unemployment problem.

The question before us would be how the private sector - which is increasingly going to be the main actor in providing employment opportunity - will handle its "social responsibility" role with that of its conventional profit maximization role in the area of employment generation. It is certainly a challenge which will call for imaginative and creative resolution.

PROGRESS IN PRIVATIZATION

The planned and progressive privatization of public assets is generally assumed to be a critical marker of a government's commitment to liberalization of the economy. On the one hand it builds confidence in the rest of the private sector that its role in the economy is appreciated and brings closer the concept of the level playing field (the public sector industries in particular being by far the recipient of external largesse in the past to the virtual exclusion of private industry from Official Development Assistance). For the other, it could be a potent indicator to the potential investor that the environment is investor friendly. What ever the other constraints may be. The privatization process is also, as is well known, donor-driven in Sri Lanka. For a variety of reasons, generally non-economic, the pace of privatization has been a chequerboard one in Sri Lanka. It has been alleged, not without reason as seen in the evidence adduced at the Commission which have probed the sale of State assets in the past, that the process has been flawed and that grave misjudgements, if not corruption has governed decision making in several cases. As far as the present government is concerned it would appear that its progress in privatization has been constrained by the now familiar "privatization trap". This phenomenon, which I believe we are now

laced with is clearly described in a World Bank 1994 publication entitled "Does Privatization Deliver" and deserves mention:

"Imagine a government that historically - for whatever reasons - has not been precisely committed to capitalist policies. Now imagine that the government is trying to sell an enterprise. Because of the government's record, buyers will be wary and the enterprise will not fetch a high price. There are two possibilities after that: the government will live up to the government's promise and the enterprise will be regulated in such a way that the government will become hands-off and keep its hands off. Now in the latter case those who purchased the asset will receive an enormous windfall, and that will create pressures for the government to renege itself and expropriate some of the gains. So a government that lacks credibility has a very real problem. With this type of situation, there is a tendency towards debt in the hope that the government's credibility will improve later and the enterprise will fetch a higher price, but what usually happens is that the price falls even more over time."

I have referred to this in extent as the exact thing out very clearly the importance of credibility which apparently is a critical factor governing both privatization and the intermediate issue of foreign investment.

An immediate task in the economic restructuring programme would be a review to identify further activities in the economic and social sectors which could be handed over to the private sector and the intermediate sector organizations like the cooperatives, NGOs and the local communities.

Activities for such handing over may conceivably include:

- building and operation of economic infrastructure and utilities
- establishment and operation of health care, education and training
- production related technical inputs and marketing facilities
- cultural activities, sports etc.
- provision of financial, trade and related services.

REFORM OF THE BUREAUCRACY

Following from the current economic policy framework which recognizes the private sector as the engine of growth, the principal roles of the government, and accordingly of the administrative system, must be to facilitate the participation and investment of the private and intermediate sectors (i.e. the cooperative and NGOs) in economic activities. And as market mechanisms gain

strength government withdrawal from involvement in the economy may extend to even such traditionally public sector activities as provision of infrastructure, such as roads, and ports and services such as power generation and telecommunication. Governments withdrawal from the micro-management of economic activities could cover both disinvestment from existing enterprises as well as a conscious refusal to enter into new involvements. The new roles that the State would need to play-discussed in earlier sections - would require a new agenda of administrative reform and improvement to develop the necessary institutions and their human resource requirements. Two immediate needs would be:

- (a) setting up machinery for discharging the tasks relating to **regulatory oversight** of consumer protection, pricing of public goods, labour welfare, protection of the environment and the stability of financial institutions like finance companies.
- (b) the availability of appropriate institutions and resources to **manage the enterprises** which would still remain in the public sector.

In the medium term, a continuing role for the State would be the development of the new skills which the work force must possess if it is to meet the demands of the modernizing economy. There is the need too to reorient the administration to serve the needs of the devolved polity which is increasingly becoming a reality of the future. There is today a serious lacunae in political and administrative effectiveness at the devolved levels.

One of the major tasks of administrative improvement would be to strengthen coordination between central, provincial and local levels and enhance effectiveness of performance. This is certainly an area of concern to the private sector which could increasingly find itself operating at the provincial level and confounded by the relative ineffectiveness of provincial administration.

A characteristic of the prevalent administrative attitude towards the private sector, which is basically *unfriendly*, is the belief that the public servant is the natural custodian of public property and even public morals.

This to my mind is a carry over of a colonial heritage of the public service which saw the private sector as only profit oriented and exploitative. The duty of the public servant was thus to protect the public from the exploiter. Perhaps the village *mudali* and the money lender were the archetypes of

the private sector which the average public servant coming from the rural areas experienced in his early life. The social distance, based on residence (rural as against urban), language (Sinhalese as against English), income (modest as against well-to-do), between the private sector executive and the average bureaucrat needs to be reduced. At present they live in two worlds and this distance can often be the reason for the blocks and bottlenecks which the private sector encounters as it does its paper chase through the bureaucratic maze. The inculcation of new attitudes in and the imparting of new skills to the bureaucracy pose formidable challenges as regards training and development of future public sector personnel.

ENGAGING THE INFORMAL SECTOR

The informal sector plays a not inconsiderable role in economic activity in Sri Lanka. It provides valuable links with the formal sector through retail services, vendorization, repair and rehabilitation of equipment and some production of micro-components. Through its skills in recycling, it assists waste disposal. It provides employment and income to millions of people, especially females and is an arena which has recently received the attention of the multi-lateral agencies such as the World Bank through its linkages with poverty reduction and gender concerns.

The government too for over the last decade has paid special attention to this sector through such comprehensive support programmes as *Janasaviya* and *Samurdhi*. These national programmes however are targeted almost exclusively to the 'poorest of the poor'. While their activity can be regarded as part of the informal sector there yet remains a relatively overlooked but vital component of secondary economic activity which operates at the fringes of the organized formal private sector. These small time private entrepreneurs have several needs to be fulfilled before they are enabled to play a meaningful part in economic development. These include access to finance and credit, information on markets and trends, skills development - especially in the basics of entrepreneurship, and some relief from the constant harassment and exploitation of municipal authorities, police and the labour department. Clearly this is an area of challenge both to government and the private sector.

SENSUAL POLITICS -THE NEED TO REDUCE RIVALRY

A creative and continuing partnership between the government and private sector would not be possible without a multi-party consensus in regard to the broad objectives

of national development.

While this would seem to be a truism, in the context of Sri Lanka's recent political development it is something which has to be painstakingly constructed. In the strident 'democratic' framework in which governments are formed and function in Sri Lanka there are pervasive contradictions which stand in the way of developing stable and harmonious relationships between the government and other important stakeholders in development, including the political opposition. Some of these contradictions are inherent in the highly competitive 'democratic' process itself. The very manner in which governments are formed - competing Manifestoes, virulent campaigns and hard fought elections tend to polarize rather than build consensus. What persists is rivalry and hostility in an atmosphere "of the winner taking all", rather than a spirit of compromise, accommodation and sharing. This has been a feature of post-independence politics in Sri Lanka to which many political analysts have drawn attention. Managing the relationships with the political Opposition may well have beneficial results not only in reducing the confrontational nature of political behaviour but in engendering the broadest support for achievement of national goals.

I have deliberately avoided in the discussion above the considerable impact of the ongoing armed conflict in the North and East on the economy. Its effects are traumatic and severe particularly on the government Budget and the place of the private sector in such economic activities as private foreign investment and tourism. However for the purposes of our discussion I have regarded the 'ethnic conflict' as a problem which will be eventually resolved or one which we will have to live with and manage.

It is also a fact that rather impressive rates of growth have taken place in the past, along with the existence of war in a part of the country. This is not to down-play the effect of the war on the Budget, on the size of the deficit in the current account, the pre-emption of resources on defence expenditures, the heightened need for security and the consequent effect on economic growth. Inevitably in strategizing about the future and the overall challenges the country would have to face in economic development, the conceptual analysis would be more relevant if a state of normalcy were assumed.

Contd from page 14

the enemy from the Moscow region; the battle of Stalingrad, the raising of the 12-month siege of Leningrad, the capture of Berlin by the Russians, and the defeat of Nazi Germany by the Allied forces.

CEYLON FRIENDS OF THE SOVIET UNION

In 1942, helped to establish the Ceylon Friends of the Soviet Union and took an active part in all its activities. The aims and objects of the organisation were to enlighten the public regarding (a) the condition of life and the work of reconstruction in the USSR, (b) the cause, character, progress and results of the then raging against the Soviet Union, and (c) to give as direct and practical aid as possible to the Soviet peoples in their fight against fascism and reaction. In pursuance of these objectives its members, among other activities, published a journal called the *Lanka-Soviet Journal*, of which I was the editor.

VISIT TO PLACES OF HISTORICAL SIGNIFICANCE

After the war and after peace was restored, I had the opportunity to visit many of the places of historical significance in various parts of the Soviet Union. Germany's unconditional surrender was signed by General Jodl on May 7th 1945. But before this, on February 13th 1945, the Declaration of liberated Europe by the leaders of the three Allied Powers was published. This Declaration is the basis on which a Third World War has so far been averted, despite the subsequent efforts of Winston Churchill and others to undermine the provisions embodied in the declaration. My wife and I were given the opportunity to visit the palace at Evdavia, Crimea, in which the Conference took place and the Declaration signed. I give below the text of the Declaration:

"The Premier of the Union of Soviet Socialist Republics, the Prime Minister of the United Kingdom, and the President of the United States of America have consulted with each other in the common interests of the peoples of their countries and those of liberated Europe. They jointly declare their mutual agreement to concern during the temporary period of instability in liberated Europe, the policies of their three Governments in assisting the peoples liberated from the domination of Nazi Germany and the peoples of the former Axis satellite states of Europe, to achieve by democratic means their pressing political and economic problems."

"The establishment of order in Europe and the rebuilding of national economic life must be achieved by processes which will enable

the liberated peoples to destroy the last vestiges of Nazism and Fascism and to create democratic institutions of their own choice. This is a principle of the Atlantic Charter - the right of all peoples to choose the form of government under which they will live - the restoration of sovereign rights and self government to those peoples who have been forcibly deprived of them by the aggressor nations."

"To foster the conditions in which the liberated peoples may exercise these rights, the three Governments will jointly assist the people in any European liberated state or former Axis satellite state in Europe where, in their judgement conditions require: (a) to establish conditions of internal peace; (b) to carry out emergency measures for the relief of distressed peoples; (c) to form interim governmental authorities broadly representative of all democratic elements in the population and pledged to the earliest possible establishment through free elections of governments responsible to the will of the people; and (d) to facilitate where necessary the holding of such elections..."

UNITY FOR PEACE AS FOR WAR

... Our meeting here in the Crimea has reaffirmed our common determination to maintain and strengthen in the peace to come that unity of purpose and of action which has made victory possible and certain for the United Nations in this war. We believe that this is a sacred obligation which our Governments owe to our peoples and to all the peoples of the world.

Only with the continuing and growing co-operation and understanding among our three countries and among all the peace-loving nations can the highest aspiration of humanity be realised - a secure and lasting peace which will, in the words of the Atlantic Charter, "afford assurance that all the men in all the lands may live but their lives in freedom from fear and want".

Victory in this war and establishment of the proposed international organisation will provide the greatest opportunity in all history to create in the years to come the essential conditions of such a peace.

WINSTON S. CHURCHILL
FRANKLIN D. ROOSEVELT
J.W. STALIN

The Atlantic Charter is the declaration made in 1941, by the President of USA, J.F.D. Roosevelt and the Prime Minister of the United Kingdom (Winston Churchill) that their two countries sought no territorial advantages, would support only changes that accorded with the wishes of the peoples

concerned, respected the right of all peoples to choose their own form of government, have access to trade and raw materials, and enjoy improved standards of life, and aspired to security for all nations in the post-war world through disarmament and international co-operation. The declaration was widely acclaimed as a statement of Anglo-American aims, and was received in many parts of the world as a promise that after the war self-government would be extended to all peoples.

WINSTON CHURCHILL'S FULTON SPEECH

But once the Allied states won the war, there was a change of tune. Winston Churchill in a speech at Fulton (U.S.A.) on March 13th, 1946, attacking the democratic system in the European states neighbouring with the USSR, asserted that "Warsaw, Berlin, Prague, Vienna, Budapest, Belgrade, Sofia - all these famous cities and populations around them lie within the Soviet sphere and all are subject to one form or another, not only to Soviet influence, but in a very high and increasing measure of control from Moscow". Mr. Churchill describes all this as boundless "expansionist tendencies" of the Soviet Union, and called for war against the Soviet Union.

I am giving below extracts from the interview, given on March 14th 1946, by Stalin to the *Pravda* correspondent concerning Churchill's speech.

Question: How you appraise the latest speech Mr. Churchill delivered in the United States of America?

Answer: I appraise it as a dangerous attack calculated to sow the seeds of discord between the Allied states and hamper their co-operation.

Question: Can Mr. Churchill's speech be regarded as harmful to the cause of peace and security?

Answer: Unquestionably, yes. As a matter of fact, Mr. Churchill's position is now that of the inconditionals of war. And Mr. Churchill is not alone in this - he has friends not only in England but in the United States of America as well.

It should be noted that in this respect Mr. Churchill and his friends strikingly resemble Hitler and his friends. Hitler set out in unceasing war by proclaiming the race theory, declaring that the German speaking people constituted a superior nation. Mr. Churchill sets out in unceasing war also with a race theory, by asserting that the English-speaking nations are superior nations called upon to decide

the destinies of the entire world. The German race theory led Hitler and his friends to the conclusion that the Germans as the only superior nation must dominate other nations. The English race theory leads Mr. Churchill and his friends to the conclusion that the English-speaking nations, as the only superior nations, must dominate the other nations of the world.

As a matter of fact, Mr. Churchill and his friends in England and the USA are presenting something in the nature of an ultimatum to nations which do not speak English: recognise our domination voluntarily and then everything will be in order - otherwise war is inevitable.

But the nations shed their blood during five years of fierce war for the sake of the freedom and independence of their countries, and not for the sake of replacing the domination of the Hitlers by the domination of the Churchills. Wherefore, it is quite probable that the nations which do not speak English and at the same time constitute the vast majority of the world population, will not agree to submit to the new slavery.

Question: How do you appraise that part of Mr. Churchill's speech in which he attacks the democratic system in the European states neighbouring with us and in which he criticises the good-neighbourly relations established between these states and the Soviet Union?

Answer: This part of Mr. Churchill's speech represents a mixture of elements of slander with elements of rudeness and tactlessness. No special effort is necessary to prove that in this case Mr. Churchill is rudely and shamelessly slandering both Moscow and the above-mentioned states neighbouring with the USSR.

Firstly, it is utterly absurd to speak of exclusive control of the USSR in Vienna and Berlin, where there are Allied Control Councils composed of representatives of the four states and where the USSR has only one-fourth of the votes. It does happen that some people cannot help slandering, but even then there should be a limit.

Secondly, one must not forget the following fact. The Germans invaded the USSR through Finland, Poland, Rumania, Bulgaria, Hungary. The Germans were able to effect the invasion by way of these countries because at that time governments hostile to the Soviet Union existed in these countries. Owing to the German invasion, the Soviet Union irrevocably lost in battles with the Germans and also as a result of German occupation and the driving off of Soviet people to German penal servitude some 7,000,000 persons. In other words the Soviet Union

lost several times more people than Britain and the United States of America taken together. Possibly some quarters are inclined to consign to oblivion these colossal sacrifices of the Soviet people which secured the liberation of Europe from the Hitlerite yoke. But the Soviet Union cannot forget them. The question arises, what can there be surprising about the fact that the Soviet Union, desiring to insure its security in the future, seeks to achieve a situation when those countries will have governments maintaining a friendly attitude towards the Soviet Union? How can anyone who has not gone mad describe these peaceful aspirations of the Soviet Union as expansionist tendencies of our state?

Mr. Churchill is wandering about the truth when he speaks of the growth of the influence of the Communist parties in Eastern Europe. It should be noted, however, that he is not quite accurate. The influence of the Communist parties has grown not only in Eastern Europe but in almost all the countries of Europe where fascism ruled before (Italy, Germany, Hungary, Bulgaria, Rumania, Finland), or where German, Italian or Hungarian occupation took place (France, Belgium, Holland, Norway, Denmark, Poland, Czechoslovakia, Yugoslavia, Greece, the Soviet Union, and so forth).

The growth of the influence of the Communist cannot be regarded as fortuitous. It is a perfectly legitimate phenomenon. The influence of the Communist has grown because in the hard years of fascist domination in Europe the Communist proved reliable, courageous, self-sacrificing fighters against the fascist regime, for the freedom of the peoples. Mr. Churchill sometimes mentions in his speeches "the simple people of cottages", patting them on the back in a lordly manner and posing as their friend. But these people are not so simple as they may seem at first glance. They, these "simple people", have their own views, their own policy, and they are able to stand up for themselves. It is they, the millions of these "simple people", who voted down Mr. Churchill and his party in England by casting their votes for the Labourites. It is they, the million of these "simple people", who isolated the reactionaries in Europe, the adherents of collaboration with fascism, and gave preference to the left democratic parties. It is they, the millions of these "simple people", who tested the Communists in the fire of struggle and resistance to fascism and decided that the Communists fully deserve the people's trust. That is how the influence of the Communists has grown in Europe. Such is the law of historical development.

Naturally, Mr. Churchill does not like such a course of development and he sounds the alarm, appealing to force. But he similarly

did not like the birth of the Soviet regime in Russia after the First World War. Then too he sounded the alarm and organised the military campaign of "14 states" against Russia, setting himself the goal of turning the wheel of history back. Yet history proved stronger than Churchillian intervention, and Mr. Churchill's quixotic ways brought about his utter defeat. I do not know whether Mr. Churchill and his friends will succeed in organising after the Second World War a new military campaign against "Eastern Europe". But should they succeed - which is hardly probable, since million of "simple people" are guardian the cause of peace - one can confidently say that they will be beaten just as they were beaten in the past, twenty-six years ago.


(End of Pravda correspondent's interview.)

THE SOVIET UNION'S HELP TO THE PEOPLES OF THE WORLD

The Soviet Union, since the October revolution, has helped the peoples of the World in various ways. It has helped the independence movements and the revolutionary movements in many countries of the world. It has supplied arms to revolutionaries as in the case of the Spanish Republican Government in the 1930s. It has entered into trade relations with many countries, which assisted them to maintain their independence as in the case of Cuba. It was the Soviet Union, in the main, that saved the world from Nazism and Fascism, as already stated in this article.

The recent developments in Russia, with Mikhail Gorbachev and his Glasnost, perestroika and his insistence in bringing in Boris Yeltsin into the government, though the majority was against the latter, has brought disaster to the country.

This is a setback to the world communist movement, but certainly not what some over-enthusiastic anti-Communists mistakenly call the fall of communism, because of the temporary reverses in Russia. China, which country has the largest population in the world, is communist since 1949 and celebrates its National Day on October 1st, and celebrated it in a grand way this October 1st also. Cuba, a Caribbean island a few miles off the coast of USA, became communist in 1959 under the leadership of Dr. Fidel Castro and continues to be so under his leadership. The current developments in Russia and other former communist countries are due to the mistakes made by their rulers. Before long the people will realise this and these countries will get back to scientific socialism. Already this is taking place as in the case of Albania and Hungary.



**Will privatization mean
the end of the union
I represent?
How will the interests
of my members be
protected?**

- Trade Unionist

Privatization will in no way dilute or reduce the powers and rights of your union. British Airways was privatized in 1987, and the unions remain to protect worker interests just as before. Some of the world's largest, most powerful and vocal unions exist in the private sector. For example, the United Auto Workers (UAW) represent over 100,000 workers at the three biggest American car companies, none of which are state owned. In fact, there is every likelihood that working conditions will actually improve in privatized companies, since there will be substantial investments made to upgrade facilities and training. You can look forward to representing a considerably more prosperous union.

It is important to realize privatization is a means to an end. It is a means to improve our living standards, foster technological progress, create employment and take our nation into a more prosperous tomorrow. In order to achieve these aims, privatization has to be executed in the appropriate manner.

That is the task of the Public Enterprise Reform Commission (PERC). Its mandate is to make privatization work for Sri Lankans today, and for generations to come.

Every privatization is a carefully considered decision that takes into account the interests of all sectors of society; the general public, the state employees, the consumers, the suppliers, as well as the country's overall economic vision.

PERC's mission is to see that privatization works. In doing so, your interests are always being well looked after.

With privatization everybody has a stake.



PERC

WATCHFUL IN THE PUBLIC INTEREST

PUBLIC ENTERPRISE REFORM COMMISSION

Bank of Ceylon - 20th Floor, Box 4, P.O. Box 200, Bank of Ceylon Tower,
Colombo 1, Sri Lanka

Telephone: 94-1-3325678 Fax: 94-1-3321115

