SOME ASPECTS OF THE DEVELOPMENTAL ROLE OF THE STATE IN SRI LANKA

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In most non-socialist less developed countries — with mixed economic systems — the state has come to play an important role in socio — economic development. In the 1950s and 1960s the 'developmental role' of the state in the Third World context was clearly reflected in the 'mainstream version' of Development Economics with a bias towards an interventionist and active state in development activity. It has been observed in this connection that "Development Economics as a discipline and the idea of the state as the organiser of economic activity became inseparable"[1] It is to be noted further that "the idea of planning and an economically active state"[2] was among the major policy themes that figured prominently in development literature in the 1950s.

State and the Less Developed Economy

The period of the 1950s and 1960s constituted a significant phase in the evolution of the post — second world war development thinking related to the Third World countries. It was during 1950s and early 1960s that the mainstream version of Development Economics focussed on a number of major issues and themes, such as low per capital income, low productivity, capital scarcity, underemployment and transfer of 'surplus' labour, the concept of the big' push' 'critical minimum effort thesis', the concepts of 'balanced' and 'unbalanced' growth and the 'take-off'.[3] The 'big push', 'critical minimum effort', the 'balanced' and 'unbalanced' growth and the 'take-off' mostly implied directly or indirectly an important role for the state in promoting, initiating, and directing economic development. State interventionism and state activism were thought to be necessary to overcome different types of 'market imperfections' and 'market deficiencies' and to ensure optimum utilisation of resources, achieve a higher rate of capital accumulation speed up the pace of economic development and to bring about the necessary institutional and structural reforms. Development effort and central planning were seen as closely interrelated with a principal role for the government.

It has been suggested[4] in this context that two models of the role of the state have greatly influenced Third World Perspectives. One is derived from Keyneseanism, which in policy terms, advocated conscious government intervension to achieve higher level of employment and output influence is came from tocialist planning and socialist achievements, especially those of the then Soviet

Union. These two models appear to have provided the inspiration for many Third World countries for enbracing state centred planning and state-participating and state directed development activity in the 1950s and 1960s.

In a less developed economy, the role of the state in relation to socio — economic development may be conveniently seen in terms of (a) the ' regulatory role ', (b) the 'promotional role' and (c) the 'developmental role'. There can be some overlapping between all three and particularly between (b) and (c). The three aspects cannot strictly be compartmentalised. Nevertheless, though inter-related, they can be conveniently classified so as to focus on different dimensions of the role of the government in development activity. The regulatory role here refers mostly to overall policy formulation and the use of policy instruments such as, fiscal policy, monetary policy or other policy arrangements available to the government which are intended to regulate and influence economic activities — at micro or macro levels. Depending on the basic socio-political philosophy of the government and the development tasks assigned to it, the regulatory functions can be 'limited' or 'extensive' in a mixed economy with public and private sectors. If the government assumes a major role in economic development - in a mixed economy - the regulatory policy interventions and functions may be more extensive. Even if the role of the state is 'limited', the regulatory framework, needsless to say, can still be important in terms of overall economic management.

By promotional role, it is meant to include those activities of the state that provide the basic infrastructural facilities necessary to promote indirectly, rapid socio-economic development. Such infra-structure expansion — physical infrastructure, economic and social overheads — has an instrumental role in a developing context and provides important ' pre-conditions' necessary for major social-economic advances in a less developed economy. This is crucial especially in the early phase of development. In most of these activities private sector cannot be expected to be involved because of the size of capital outlays or of external economies or due to the 'collective' nature of their use. State intervention will therefore be necessary in a substantial way in such vital areas of economic activity. In a developing economy, the early stages will require substantial outlays on infra-structure expansion and these will form a major component of any overall development programme making the role of the state important both in planning such large investments and determining the priorities in the financial allocations for different types of infra-structure investments.

The third aspect listed above as 'developmental role' refers largely, but not exclusively, to what can be identified as the entrepreneurial role of the state. While what falls within the ambit of the regulatory and promotional role are accepted within the framework of orthodox economic theory itself, the so-called developmental role and policies associated with it are an area of debate and disagreement; there is no general consensus on extent of state involvement and participation in directly productive activities.

In the early phase of development and in the absence of an active entrepreneurial class, the government may decide to enter into directly producing activities to develop certain vital sectors in the economy, such as in manufacturing or finance or trade, in which private sector participation is either week or insufficient. Further more, the government may decide to develop certain fields of economic activity because of their 'basic' or 'strategic' nature or their decisive technological impact; these areas may be reserved for state investment activity. Such state interventions in direct production activities can further enlarge state ownership and control over productive activities and resources and contribute to overall management and direction of the economy.

In many Third World countries state owned enterprises or public enterprises became the major instruments of state involvement in entrepreneurial or development activity, particularly in the context of rapid industrialisation pursued in the 1960s and 1970s. With the expansion of state owned enterprises in many of the mixed Third World economies, the entrepreneurial or developmental role of the state became increasingly marked. In addition to their involvement in public utilities such as water, electricity and transport state owned enterprises had made their presence in a significant way in largescale manufacturing, construction, trade and finance. Industrial expansion, capital accumulation and savings through the state sector, employment generation, income distribution, regional balance and technological advance were the most important economic reasons associated with the rapid expansion of state-owned enterprises in many less developed countries; besides these, ideological or socio-political factors too have played their part in the expansion of state owned enterprises and extended role of the state sector.[5]

What is indicated above as developmental role includes and yet transcends what is described as entrepreneurial role. In this broader sense the state is considered as the prime mover, organiser and an active agent of economic development in a less developed economy. Much of the promotional role and part of the regulatory role as indicated above can be subsumed under the developmental role thus giving the state an overarching dimension involving planning, initiating, directing — and participating directly in — economic development. In many Third World countries commitments to state centred planning, 'socialist objectives' and industrialisation polices in the 1960s and 1970s led to state sector dominance in development activity. Sri Lanka, by and large, conformed to this model for two to three decades in the post-independence period; the subsequent sections provide an analysis of this experience.

Mixed Economy and the State

In the Sri Lankan context the role of the state in the country's socio-economic development increased progressively since the mid-1950s; and it encompassed all the three components already indicated, namely, regulatory role, promotional role and entrepreneurial / developmental role. In the period after 1956, promotional and develompental roles increased in importance and consequently the regulatory functions and activities of the government too became extensive. The major role that came to be assigned to the state can be attributed to economic factors as well as ideological or socio-political dimensions.

Sri Lanka's socio-economic development in the post-independence period has been pursued within what is generally understood as a 'mixed economy' framework. The mixed economy, ie, a mixed capitalist economy, is a convenient, expression, to describe the coexistence of both public and private sectors in what is basically a capitalist structure. It is also necessary to note that the capitalist economies in the countries of the Third World, ie, the 'periphery' are different in many respects from those of advanced industrial countries of the west ie, the 'centre' The mixed economy system in Sri Lanka since the 1950s, while generally conforming to the 'mixed pattern' also reflected the different socio political philosophies of the different governments in power which resulted in either a dominant role to the state sector or a dominant role to the private sector in development activities. It is imporant to understand the different socio-political environments which influenced the developmental role of state in the post - independence period.

The two major political parties that ruled the country after independence espoused different political philosophies which influenced their policies and actions. The right-of - centre United National Party (UNP) government was in power from 1948-1956, 1965-1970 and 1977-1994. The centrist Sri Lanka Freedom Party (SLFP)-led government ruled the country during 1956—1964 and 1970-1977. The UNP is largely identified with capitalist ideology that strongly favoured private enterprise. The SLFP is mainly identified with state activism, central planning, 'regulated' capitalism and controlled private sector. The different governments in power led by the major parties with different ideological orientations though led to "discontinuities in policies", "did not result in wholesale reversal of policies" [6] with the change of governments.

Sri Lanka's development effort within a mixed economy set-up has to be seen in the context of a basically democratic political system. Usually, there is very little correspondence between developmemt policy / strategy and the type of political systems-as the experiences of different Third world countries with their different systems of governance seem to indicate. Generally speaking, development activity has progressed under both authoritarian and democratic governments. Sri Lanka, by and large, has had an 'open' and democratic political system and this had important implications for development policy. The pressures that emanated from the electorally oriented political processes had their influence on economic policy and development perspectives. Further, in the tasks of 'nation-building' the state assumed a leading role, politically, economic ally and socially in the post-independence period.

Sri Lanka's development policy since the 1950s shifted the emphasis to the state and the state sector wihin the mixed economic system. In this public-private sector composition, the "bias undoubtedly was towards greater public sector involvement in the economy".[7] The government that came to power in 1956 imparted a strong 'political economy' perspective to development policy. The SLFP-led (MEP) government,[8] reflected, politically, the triumph of forces at the time which were reformist, populist and radical. This reformist and radical orientation was also related to the 'nationalist ideology'—which was strongly Buddhist and Sinhala oriented.—as well as to the 'socialist perspectives' that gained currency not only in Sri Lanka but also in many other Third world countries in the 1950s. The 'socialist perspectives' or 'socialist goals' were influenced by 'British socialism'—largely associated with the Fabian socialists and the British Labour party, as well as by Marxian socialism and the former Soviet Union and other communist countries. There were, it is necessary to note, ex-Marxists and left-wing radicals in the SLFP dominated government in 1956. Besides, there has been a strong Marxist / Leftist movement that had developed in Sri Lanka which provided an important political background in the 1950s and 1960s. The mixture of nationalism, populism and socialism, though did not have a crystalised philosophy nor an explicity developed approach, nevertheless exerted a powerful influence towards central planning, state directed development activities and extended state ownership. An interventionist state was justified in terms of econmic or developmental perspectives, socio-political imperatives and ideological orientations. These undoubtedly provided the impetus for a series of nationalisations in the 1950s and 1960 such as in the case of in passenger transport (1958), port cargo operations (1959) banks and insurance (1961) as well as for the establishment of numerous state owned enterprises, ushering in the era of state corporations which were to dominate the industrial, trade and service sectors of the economy in the 1960s and 1970s.

The role of the state in development related activities increased noticeably since the 1950s, and the general pattern of this expansion is conveniently classified[8] in terms of five major areas: viz, (i) increasing public ownership of productive assets and resources in the economy, (ii) enlarged participation of public sector enterprises in the production of goods and services - both collective as well as private, (iii) government appropriatiou of a relatively larger proportion of the national income (iv) increasing regulatory functions and activities over the private sector and (v) provison of a set of incentives and infrastructural services to promote private sector investments. This pattern has remained roughly the same in the pre - 1977 period.

State Policy Towards Domestic Agriculture

Even before the granting of formal independence, the emergent elitist national leadership with some degree of internal self government had thought of the importance of domestic agriculture in Sri Lanka, which has remained a traditional and backward sector providing the means of livelihood to the bulk of the rural population in the country. Since then and throughout the post-independence period, this sector not only figured prominently in development policy / strategy but also in terms of state's involvemeut in promoting the welfare of the peasantry. In the immediate post-inedpendence period and to some extent even in the decade prior to it, the major areas of state investment were economic and social overheads and land development and irrigation and peasant resettlement. The state involvement in revitalising and redeveloping traditional agriculture through land development and settlement schemes has been a major development strategy in Sri Lanka. This consistant and definite policy commitment for a long period made the state an active and a principal agent of socio-economic change. In this strategy the government invested substantially to provide basic infra-structural fscilities through land development, irrigation and colonisation schemes[9] to resettle peasant farmers. In this strategy the state was also committed to a policy of development of small-holder / peasant agriculture.

During the past five decades or so, under various irrigation schemes, both major and minor, located in the dry zone, it is estimated that "over 408,000 families have been settled on an extent of 1,047,000 acres"[10] The bulk of the government investments devoted to land and irrigation infrastructure expansion was geared to requirements of peasant settlement schemes. All governments in the post-independence period, irrespective of political differences were committed to peasant resettlement and development of traditional agriculture. This interest in land development and peasant resettlement centred on "the return to the dryzone" was a "central theme in government policy" "and the continuity in government policy came in its striking form"[10] when in 1977 the United National Party government launched the biggest single development project-the accelerated Mahaveli development. Increased food production, self-sufficiency in food, utilisation of available crown lands, transfer of population, strengthening and redeveloping small holder agriculture were the multiplicity objectives of government policy on which there was a general consensus and the state was clearly and strongly identified with this strategy. This 'agrarian restructuring' involving state lands and state funds may be seen as an alternative to land reform[11] which was not envisaged until the early 1970s.

Industrialisation and Government Involvement

Another phase in the increasing importance of the state's role began with the import-substitution industrialisation started in late 1950s, which in many

Third world countries brought the state to the centre of stage in the development process. State policy on industrialion in Sri Lanka did not figure prominently until the late 1950s, eventhough there was state involvement in the setting up of industries during the war. After the war government decided to reconstitute some of these industries, most of which incurred losses - into state corporations or hand over them eventually to the private sector or even close down the remaining enterprises. The government was not in favour of starting any more industrial enterprises and state policy favoured small scale industrialisation through the private sector. Interestingly enough, this was also the view of the World Bank at the time when it made its recommendations on economic policy to the govenment in the immediate post - independence years.[12]

The basic policy perspectives, however, changed significantly in 1956 with the new government coming into power and the shift of emphasis with political change after 1956.[13] The new government committed as it was to be a "radical approach" believed strongly in state-centred planning, and state directed and state participating development in which industrialisation received greater emphasis. The state was expected to contribute significantly towards import-substitution industrialisation and private sector too was assigned an important place in this strategy. The government was committed to expanded state-ownership, control over the 'commanding heights' of the economy as well as egalitarianism and socialist principles.

It was during this period that a well-thought out and clearly worked out perspective planning exercise, The Ten Year Plan was undertaken by the government, which set out the long-term development goals in relation to the country's, population growth and labour force, foreign trade and export sector, industrialisation and import substitution, self-sufficiency in food and domestic agriculture. Although the Ten Year Plan as such ran into trouble and could not be implemented, it set out the goverment commitments to central planning encompassing the public and private sectors; what was also noteworthy was that it laid down the basic development perspectives which were relevant and some of which even continued to influence policy formulation during the subsequent period as well. The Ten Year Plan placed the emphasis on central planning, state initiative and the creation of "a sizeable industrial sector".[14] The commitment to industrialisation with the state sector playing a major role continued as a major policy theme in Sri Lankan development strategy. This was in harmony with the developmnt perspectives that generally dominated development thinking at the time especially on account of the influence of the Latin American structuralist school, notably through Raul Prebisch's wittings. This was the period in which the so-called Prebisch-Singer thesis about the secular decline in terms of trade for primary producers exerted considerable influence in the Third world countries. With the prospect of secular decline in the terms of trade for primary products exporting Third World countries, lower income elasticity for such products leading to poor demanp in capitalist world markets and 'trade pessimissm' associated with them, the less developed countries turned to import-substituion industrialisation which was to dominate the 1950s. and 1960s. Many Third World countries took this path and the state played a leading role in this strategy. Sri Lanka's development policy since the 1950s and until the ealry 1970s reflected this perspective to a large extent.

In addition to nationalisation of important sectors of the economy such as public trnnsport, banking, insurance and petroleum distribution, in the 1950s and 1960s there also took place the establishment of a number of state enterprises — semi-autonomous public corporations — in industry, trade and services. The state industrial corporations in particular were set up to develop 'basic' or 'large scale' and capital intensive industries in such fields as cement, tyre, steel, paper, chemicals, petroleum refinery, sugar and textile with a view to contributing significantly to import substitution. With the progressive increase in state participation several state corporations also entered the trading and service sectors in the economy leading to almost state sector monopoly and control over the imports of essential commodities and imports of raw-materials; in addition, there were also numerous Statutory Boards and state agencies or — semi - state agencies — like the co-operatives, which had an extensive involvement in the distribution of essential food commodities — which started operating in the 1960s and 1970s. In the 1960s and 1970s, state sector dominance spread to a wide range of activities in the econamy.

In the early 1960s the private sector came to be involved in a significant way, for the first time, in import substitution industrialisation. With the imposition of stringent controls on imports — introduced by the government to meet the serious balance of payments problems — and the numerous fiscal and other incentives given by the government, the private sector made use of highly protected domestic market and responded in a positive way. However the import substitution industrialisation that started in the early 1960s ran into serious problems in the 1970s when the country's persistent adverse foreign exchange situation began to have a crippling effect on both public sector and private sector industries — especially the latter. It was in this coetext that the UNP government (1965 — 70) initiated important changes in policy favouring 'partial liberalisation' on external trade and pro-market adjustments; and the government at the time showed very little enthusiasm for extension of state sector activities. Though there were important changes and readjustments in policies in this period, there was no significant reversal of polices, particularly in relation to the developmental role of the state.

State and Welfarist Policy

When the SLFP — led coalition government was returned to power in 1970, it clearly paved the way for a further period of intensification of state sector activities. It may be said-viewed somewhat critically — the philosophy of 'dirigisme' reached its peak during the period of this government (1970 — 1977). It is interesting to note that the new (first) republican constitution introduced by the United Front Government (1972) made a clear pronouncement in its Principles of State Policy favouring the "development of collective forms of property in the means of production, distribution and exchange such as state property and co-operative property" and "socialist democracy".[15] Thus the need for state ownership or collective forms of ownership, egalitarianism and equittable distribution of the social product and 'socialist objective' were stressed in socio-economic and ideological terms. It was significant that the United Front Government had important Marxist allies — the Lanka Sama Samaja Party and the Communist Party. These two leading Marxist Parties in the country came closer, politically, to the SLFP since the early 1960s and joined the SLFP — led coalition in 1970, This undoubtedly injected a greater degree of left-wing radicalism in state policy which will be relevant to the understanding of the role of the state in development. The new government in terms of its broad policy declarations, was strongly committed to state or social ownership of productive resources, state-centred planning and state direct participation in entrepreneurial activity and guided or regulated private sector participation in economic development. The socialist goals were not explicity defined; but they meant as in the past expanded state ownership of productive resources, increased state participation in economic activity, welfare-centred redistributive policies and a regulated private sector.

In socio-political terms 'state welfarism' throughout the post-independence period became a major element in government policy and this undoubtedly gave an added dimension to the role of the state in socio-economic development in the Sri Lankan context. It would have been, perhaps, unusual for a government in a poor country to have adopted, at an early stage, and on such a scale welfarist policies involving mainly the food subsidies, free education and free health services as part of state policy. From the time of independence and until 1977 and even thereafter substantial government resources were devoted to a wide range of welfare services. This part of the government budget annually claimed one-third or more of the total government expenditure. State patronage, rural bias-partly because of the weightage given to rural electorates-state benevolence — ('state as the supreme alms giver'[16]), relief against poverty, political support or political legitimacy — all these to different degrees have influenced government welfarist-commitments. Sri Lanka's experience may even be a unique case of government involvement even before reasonable development has got under way and may perhaps be described as 'redistribution before growth'. In this strong welfarist and redistributive policy, the state has undoubtedly been the primary agent. Consequently, Sri Lanka, in political and social terms, emerged as a model of a democratic social welfare state at an early phase stage of her development experience. This redistributive and welfarist state policy continued even in the context of serious budgetary problems. Once committed to such a policy the governments, even if wanted, could not withdraw such commitments in any significant way due to the political implications. Thus over the years, 'politics of welfarism' became will rooted and was as significant as the economic or financial dimensions of welfarist policy. Eventhough government spending on major welfare commitments such as food subsidies education and health contributed significantly to human resource development it was never planned that way or explicity conceived in that manner in the early decades of post-independence period. Much of the spending was largely considered as welfare or redistributive oriented measure-transfering benefits to the poor through the government budget. In the 1960s and 1970s (and thereafter as well) the welfare expenditures caused heavy budgetary burden and growth-welfare trade off implications were seen to be significant. It was observed in one such study thus: "the inexorable expansion of social services to provide for a rapidly rising population was to present a continuing delemma for political leaders and policy makers. The competing claims of welfare-oriented policies and development goals were to be a recurrent theme in the development story during the next two decades".[17]

State Sector Dominance

During the 1970s when the United Front Government was in power important areas of the economy came under direct state ownership and / or control. It was during this period that two significant and radical land reform legislations were implemented. The 1972 and 1975 land reforms increased substantially, and forthe first time, direct state ownership and management, in plantation agriculture. Although redistributive land reform and nationalisation of foreign owned plantations were earlier talked about-especially by Marxists and left-wing radicals who advocated nationalisation foreign-owned estates-no government ventured to carry out such radical reforms. Even the United Front Government did not include such a programme in its 1970 electoral campaign. It was only in the aftermath of the abortive JVP insurgency (1971) that the government decided on a land reform programme in 1972. The first legislation limiting the private ownership of land imposed a ceiling on land ownership-25 acres for paddy lands and 50 acres for lands other than paddy. Lands in excess of the ceiling were vested in the Land Reform Commission. Under this first reform the state acquired about half a million acres and the bulk of it was redistributed to government agencies and only a small proportion was redistributed to individuals. The 1975 (amended) legislation went a step further and nationalised estate lands and assets that belonged to public companies; this ended more than a century of foreign ownership in the plantation sector in Sri Lanka. The land reform programme led to the emergence of largescale state ownership in the plantation sector with for reaching implications for the management of this vital sector in the economy. Of the total extent of lands vested in the Land Reform Commission (about one million acres) nearly 70% were redistributed to state agencies, while individual villagers received only 12%, according to information furnished as at December 1979.[18]

During the period of the United Front Government, the number of state enterprises increased and the government also made use of the Business Undertakings (Acquisition) Act of 1971 which was brought in as the legal instrument to take over privately owned business enterprises, which, needless to say, was resented by the private sector. The state sector expansion, as seen through the public enterprises was rapid in the 1960s and 1970s. By 1977, the last year of the United Front Government, the total number of indentifiable public enterprises — those engaged in the production of goods and services — stood at 107, compared to 28 in 1958; the expansion was most marked during 1970 - 75, increasing from 62 to 107. The number of manufacturing corporations increased noticeably from 12 (1958) to 24 1970) and thereafter recorded only a moderate expansion increasing to 27 in 1977. The service-oriented state corporations experienced the most notable increase with the number of corporations increasing from 14 (1958) to 60 (1973), and numbered 61 in 1977.[19] By 1977, the public enterprises had an extensive presence in a number of fields. The total capital investment of public corporations amounted to 11, 318 million rupees the bulk of which has been in service sector (6261 million rupees') and industrial secter (3711 million rupees); and total employment was estimated as 583, 620 in public enterprises in 1977.[20] It was reported that the public enterprises contributed to 17% of the GNP in 1960 and this increased to 21% in 1970 and to 24% in 1977. With increasing state participation, the public sector's share in industry increased from 15% in 1960 to 55% in 1977. In the same year the public sector accounted for 29% of the country's exports; and the public sector had a near monopoly share in import trade until 1977.[21]

Government expenditure levels had consistently remained high in Sri Lanka. This has been a long-standing characteristic in the Sri Lankan context and was therefore a good index of government involvement in the economy. The government expenditure level in relation to the GDP (at current prices) stood at 25% in 1960; by 1970 it was 27%: in 1977 the government expenditure / GDP ratio stood at almost the same level. Thereafter the ratio climbed steadily and peaked to 42% in 1980 before experiencing a moderate decline.[22] Governmental involvement, in basic infrastructural development, spending on social welfare services and outlays on administration and other related services, have all contributed to a high level of government expenditure in Sri Lanka. In this context, the expenditure-revenue gap widened substantially resulting in persistent overall budget deficits which since the mid-1970s exceeded 10% of the GDP annually and the ratio even doubled in the 1980s.

Even before the new United National Party Government came to power in 1977, the economy which was under strong government direction and with considerable government participation was under severe stress. Unfavourable terms of trade, exchange restrictions and vulnerability of the economy to adverse external developments had a serious effect on production levels in many sectors of the economy. Most of the state corporations, which spearheaded the drive towards industrialisation showed poor performance due to management inefficiency, inappropriate pricing policies, overstaffing and poor capacity utilisation. Import substitution industrialisation both in the public and private sectors had already reached the limits when the economy became more vulnerable to fluctuations in external trade, exchange scarcity became a chronic feature and export sector reflected serious weaknesses. The government could not get the economy moving either towards faster growth or lower unemployment or improved cost of living. The average rate of growth in the economy during 1970—77 was around 3% percent perannum, which was poor by previous standards, and the overall unemployment rate reached nearly 20% of the country's labour force.

Open Economy Phase and Government's Role

This was the background in which the United National Party government was voted to power after a massive election victory in 1977. The new government initiated a number of new economic policy reforms which were a definite departure from the earlier years. Even the concept of the developmental role of the state changed with the new development strategies. The Central Bank in its commentary on the new economic policies and perspectives observed, "1977 was a clear watershed in the economic history of Sri Lanka, when the country turned away from a predominantly inward, tightly controlled and welfare oriented strategy to one which primarily emphasised export growth, competition and higher capital investment..."[23]

The 'open economy' policies adopted from 1977 meant a great deal of change in the 'dirigiseme' philosophy and structure that evolved prior to 1977. The liberalisation policies pursued since 1977 radically altered many of the development policies and perspectives of the previons two or three decades. Consequently the developmental role of the state also had to undergo marked change especially in relation to its direct participation in the production of goods and services. The liberalisation policies involved considerable deregulation and elimination and dismantling of state controls and state-sector monopoly in production and trade, removal of most controls on domestic prices, exchanges rate, imports and assigning a major role for the market and private enterprise — both local and foreign — in determining resource allocation in the economy; and the role of the state was greatly restricted with regard to directly productionist activites.

The new policies did not envisage any further expansion of public enterprises. The existing public sector enterprises engaged in the production of goods and services, were required to adhere strictly to commercial norms and financial viability; they were expected to compete on equal terms with the private sector and encouraged to seek collaboration and technical / managerial expertise - local or foreign. The government policy also was in favour of privatization of public sector enterprises and this has been actively promoted since the beginning of the 1980s. Arising out of the liberalisation programme, the major thrust and policy orientation pointed to a free market 'open economy' with the emphasis on foreign capital and an outward — looking export - led development strategy. In the 1970s and 1980s many Third World countries had already taken this path and Sri Lanka too opted for such a development path.

In the context of the liberalisation policies - and compared to the developmental role assumed by the government in the previous decades - there was a de-emphasis on direet state involvement in development/entrepreneurial activity. The IMF / World Bank approach has stressed this too often in relation to the Third World contries; and in the case of Sri Lanka too the public sector was seen to be 'over-extended'. Such a situation, not just in Sri Lanka, called for "rethinking the state" and "redefining" the role of the state.[24]

Both theory and experience indicate different demands on, and respon sibilities, for the state. These will not only influence the overall size of the government sector, but also the various activities - such as regulatory, promotional or entrepreneurial activities, in terms of classification made at the beginning which the state may be called up on to undertake. It is well known that an open economy strategy relies largely on market forces and the private sector-based on local and foreign capital - to allocate resources and the pace of deve lopment will be largely determined by them. The role of the state is likely to be active, but modest under an open economy strategy than under, say, an industrialisation or redistributive stratgry[25], where the state can and does assume a greater directional and directly participatory role in a mixed economic system.

Eventhough the role of the state changed in some important respects in the post - 1977 period its direct productionist role, the pace of economic changes and the demands imposed by the new economic policies, especially in relation to infrastructural support and expansion required on a massive scale made the role of the government important and, paradoxically enough, to a greater extent than before. The role of the government in its substantial indirect contribution-promotional and regulatory dimensions - and its impact on capital accumulation in the economy became considerable in the 1970s and 1980s - something similar to a 'big push' strategy.

What is to be noted in this context was that the new government commenced its econmic programme with the three 'lead projects', namely the accelerated Mahaveli development project, Urban development and Housing programme and Investment Promotion Zone (s). These involved substantial investment outlays on the part of the government to promote the expansion and development of infrastructure facilities. The accelerated Mahaweli development, was the largest single development project ever undertaken with immense potential economic- and social impact. It was a massive investment programme not only in terms of providing irrigation facilities and settlement of peasant families - reflecting a basic continuity in policy orientation in relation to peasant agriculture - but also in generating hydro - power to meet the country's increasing needs. It was also funded substantantially by foreign assistance. According one early estimate (1979) the total estimated cost of the project at 1979 prices was given as Rs. 22,550 million.[26] In the post - 1977 period tho government capital expnditure, and as a result its total expenditure, increased very substantially. From 1978 - 1980 as the first phase of the government investment programme got under way, while the total recurrent expenditure increased form Rs. 10, 408 millon to Rs. 13, 249 million, capital expenditure doubled increasing form Rs. 6614 million to Rs. 13, 854 million.[27] The marked increase in total government expenditure pushed up the expenditure/GDP ratio, which exceeded 40% in 1980; and average ratio during 1978 - 1980 stood at 38%.

One of the most notable devlopments in the post - 1977 period was the substantial increase in the investment/GDP (at current market prizes) ratio - reflecting the growth oriented strategy that was pursued. The investment/GDP ratio increased from 14% in 1977 to 34% in 1980 and thereafter there was a moderate decline and the ratio averaged 27% during 1980 - 85. This sharp increase in the investment ratio was unprecedented. What is of added interest was that public sector investment averaged 55% of the total during 1978 - 85.[28] When the government launched its public investment programme in 1977, public sector investment was 7% of the GDP (at current market prices), same as that of the private sector. But since then the ratio of public sector investment increased steadily to 20% in 1980 and private sector investment stood at 14% of the GDP in the same year.[29]

What is to be noted further was that domestic saving remained sluggish and did not keep pace with the sharp increase in investment and the investment - savings gap widened considerably; consequently, the massive investment effort had to be sustained by sustantial 'foreign savings'. During the period 1978 - 85, gross domestic investment averaged annually Rs. 26,974 Million (27.5% of the GDP), of which nearly 40% on average, was financed by foreign savings; in terms of GDP ratios, national savings and foreign savings accounted for 16.8% and 10.5% respectively of the average ratio of investment of 27.5% during the period 1978 - 85.[30] From the foregoing, three aspects, above all else, stand out clearly. Firstly, it was seen that there was an unprecedented effort to step up the rate of investment in the economy. Secondly, the success of this depended on an equally significant scale of public investments; and, thirdly, the entire investment effort of the period was heavily supported by foreign finance. What is most stiking, as observed, was that the driving force behind the growth-investment strategy and performance was not so much the market forces, but rather the massive capital expenditure by the state which was funded by a substantial volume of foreign finance.[31] This may appear as somewhat surprising in a context where the basic policy thrust centred on the market and the private sector, but the principal leverage has to come from government investment.

The new policies in the post-1977 period also indicated a retreat from the welfarist and redistributive approach of the past. Though this formed part of the new policy package, it was only a partial withdrawal and there was no complete reversal of policy. The government withdrew the food subsidy scheme, which had existed for several years, and replaced it with a more selective and targeted food stamp scheme. Beyond this the government did not attempt any major changes in other existing social welfare compoments. Although the IMF / World Bank approach, much of which was incorporated in the open economy and liberalisation policies, favoured a drastic reduction in welfarist spending, it was not politically feasible to do so. However, in the years immediately following the implementation of the new policies, the share of welfare spending in total expenditure did show a decline. One of the urgent fiscal problems that the government had to face in the first-half of the 1980s was the need to limit government expenditure as well as the reduction of overall budget deficits to what was deemed to be more 'manageable' levels as part of the fiscal stabilisation, consistent with IMF 'conditionality'.

Summary & Conclusion

In the Third World context the nature of the developmental problems and the tasks involved generally entail a greater and sometimes even an activist role for the government. The developmental role of the state in Sri Lanka has immensely grown in importance irrespective of the political orientations of the governments that were in power. In the Sri Lankan context, it would be true to say that there has been a large measure of agreement - a consensus that has evolved - among governments led by different political parties regarding the importance attached to the socio-economic role of the state. What has been identified as regulatory role and promotional role not only continued, but considerably increased in their significance and impact throughout the post independence period. With regard to the entrepreneurial role, it can be stated that this direct interventionist role was pursued with greater commitment and vigour during certain periods; and it continued though with less enthusiasim in other periods. State sector dominance in development in Sri Lanka in the late 1950s, early 1960s and first half of the 1970s has given way to a more market-oriented approach since the late 1970s. But this has not made the role of the state less important. The limits placed on the state in relation to direct productionist activities have been well compensated by the qualitative and quantitative aspects of the regulatory and promotional activities of the government.

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