

A Sceptical View on the Open Economy: An Interview with SB De Silva



Editor's Note:

*SB de Silva (b. 1928) is a political economist and author of *The Political Economy of Underdevelopment* (1982) as well as contributor to *Capital and peasant production: studies in the continuity and discontinuity of agrarian structures in Sri Lanka* (1985). He read economics at Colombo University, followed by an MA at Canberra University College and a PhD at the London School of Economics. He has had a varied career beginning in the Department of Census and Statistics, followed by the Central Bank of Sri Lanka; in the Employees Provident Fund; later Consultant to the United Nations Economic and Social Commission for Asia and the Pacific (UNESCAP) in Bangkok; Secretary to the Ministry of Industries of Sri Lanka; lecturer at Universiti Sains Malaysia in Penang; the Deputy Director of Research at the Agrarian Research and Training Institute in Colombo; and retiring as Senior Lecturer in Economics at the University of Peradeniya. He was interviewed in Colombo in May 2017. The transcription was done by Swasha Fernando and edited by B. Skanthakumar.*

In this special issue of Polity marking the 40th anniversary of the 'Open Economy' reforms ushered in by JR Jayewardene's UNP government and its successors from 1977 onwards, shall we begin by talking about its immediate predecessor, the United Front regime of 1970-1977? What is its record and legacy with regard to economic change in Sri Lanka?

The United Front attempted to industrialize the country. T. B. Subasinghe was its Minister of Industry. There was also the regulation of the issue of foreign exchange and import licensing – not to importers as such but to those people who were called 'approved importers'. But nothing very much came out of that attempt to industrialize, because the industrialization policy was really foreign exchange driven. To control the expenditure of foreign exchange they issued new foreign exchange licenses for people who would start industries here. But industries which were foreign exchange driven meant that they were beginning to manufacture products of a non-essential type.

We also have to go into the class structure of the economy. I think the coalition government attempted to control the private sector, preventing their access to the traditional kind of manufactures. They also imposed a ceiling on house-ownership and house-building. Stringent import controls and exchange controls which were imposed on the economy served as a brake on the accumulation of capital by an importing class, typically in the case of motor vehicles, motor vehicle spare parts and so on, and also non-essential luxuries.

Having curbed the capital accumulation process by a growing bourgeoisie, the policies which the government attempted led to a certain accumulation of capital through tax concessions and tourism, among

other things. So on the one hand it tried to control the private sector; on the other, it allowed them to enrich themselves. Also the very structure of price controls and foreign exchange and import controls meant that there was a market, perhaps an underground market, for imported goods which anyway flowed into the country. So there was a class which made money out of the serious shortages of these goods. Unless of course the government, like in Britain during the second world war, had also introduced price controls, and controlled the distribution of these goods, this development was inevitable. [Even] the leftists were complaining that they couldn't get three yards of cloth to make a uniform for their daughter. So there was on the one hand a serious shortage of raw material, a serious goods shortage which led to an increase in price and encouraged smuggling and things like that. On the other hand it prevented the accumulating class to invest their capital by the housing ceiling, controls on foreign exchange, and the utilization of foreign exchange. So there was a class which flourished at the end of the coalition period.

You appear to suggest that this outcome was unintended or unforeseen, whereas my reading of that period is that precisely the aim of the SLFP at least, was to create or expand the domestic capitalist class which previously was perceived as politically tied to the UNP, and by its nationalist and leftist critics as a comprador bourgeoisie. So rather was this not the SLFP's attempt to create a 'national capitalist' class engaged not only in trade of the colonial variety, but in manufacturing through import-substituting industrialization for the home market?

Yes, but now you're talking about a national bourgeoisie as though it is a bourgeoisie which has the interest of society at heart. No (laughing), that is unthinkable because the interests of society should coincide with the interest of the bourgeoisie. Towards the end of that regime, when N. M. Perera tried to encourage the export of gems and set up a Gems Corporation, that was really a license for people to enrich themselves. The very scarcity of goods created a very high demand for the goods which were imported. And goods which were imported as raw materials or input for industries were distributed by the government for consumption, treating them as final goods. So they really gave a mandate for the bourgeoisie to enrich themselves as they had never done during the previous government because the circumstances were not there. They created an economy, a scarcity economy, without implementing that economy in a stringent way.

If they were able to enrich themselves under the SLFP, why weren't they content to simply carry on with that particular regime? Why instead do we see these capitalists firmly behind JR? What accounts for their political shift?

JR enabled them to do legally, what they were doing underground. And they were therefore waiting for a change of government. If they did not actively support the UNP, they supported its coming to power.

How about the fate of this class under the open economy reforms? We see the new government encouraging foreign investors to bring in higher-skilled, more capital-intensive forms of production. There were attempts to bring them even in the early 80s and one narrative runs that it was the '83 riots that discouraged the Japanese who were relocating electronics from Japan and looking for countries with lower wage costs. Apparently Sri Lanka was under consideration as a destination, but they ended up going to places like Malaysia instead, because of the political stability there, which didn't exist here.

But what types of industries? So now we'll have to go into the question of whether the ascribed metropolitan [or 'developed'] countries, were really trying to industrialize the satellite [or 'underdeveloped'] countries, as well as the types of industries they were interested in, especially in light of the Second World War and the aftermath of the classical colonial period.

Definitely that 'new' international division of labour was very much about cheap labour and industries which will not be strictly controlled for their pollution consequences. In other words, dirty industries, low-tech industries, industries which were labour intensive. And these were not industries which directly competed with ones that were highly valued in western economies, like science and technology.

That being the case, how do you take forward the critique in your book on the incomplete transition from merchant to industrial capitalism in Sri Lanka? Wasn't industrialization of the historical ideal-type foreclosed, such that it didn't matter what kind of regime, left or right, you had in Sri Lanka? The fact is that none of those regimes would have been able to make that evolution with Sri Lanka integrated into the world economy as it was. And our capitalists, or what we have for capitalists, always claim to be cash starved. They say that they don't have much money and they are unable to borrow as much as they need from state banks or the banking sector

generally, because the banks have lent so much to the government.

They have got investment opportunities, mainly the construction industry which is of a speculative type and whose property values have been rising. After that building collapsed in Wellawatte now the authorities say there are 8000 similar buildings. This is the kind of economic activity they have been at.

You're saying that the state should discipline domestic capital, basically direct it?

No, what do we expect from domestic capital? Why didn't we expect this from domestic capital after the economy was opened up? They say that Sri Lanka was one of the first Asian countries to globalize, so what new industry or production has the Sri Lankan bourgeoisie been doing since 1977, 40 years ago?

Tourism?

But tourism is not an activity which is transformative of our economic structure. If we're not thinking of development in the GDP sense, which is extremely misleading as a yardstick, then what countries like ours need is an economic transformation.

A transformation where investment is first, in the form of fixed capital. Now with trading capital, there is hardly any fixed capital apart from these vehicles and a go-down or warehouse which can be disposed of in a jiffy, if one goes bankrupt or wants to close down. But once you get into industrial investments you're caught up in fixed capital and fixed equipment which cannot be disposed. But industrialization also means not really fixed capital like workers, housing, roads, transport and so on, but increasing the productivity of labour. To increase the productivity of labour, your fixed capital should be with plant and machinery. It becomes a machinofacture, a process of machinofacture.

We should mobilize the surplus, and there is an enormous surplus, because people have two to three cars, sending their children to international schools. In the canteen in one international school a cup of coffee costs 200 rupees I was told. So obviously there is a huge surplus of accumulated capital, but it is not capital in the form of producer goods, it is capital mostly in the form of money.

We saw a shift to banking and financial services, a lot of maybe cross ownerships, or conglomerates having acquired banks or even setting up banks, and so on. This government, and the previous one too, was positioning Colombo as a financial hub for this.

But what are we manufacturing and how are we manufacturing? We don't even produce a pin or a paperclip. Now to produce a pin, Adam Smith explains his division of labour, there should be one set of people polishing the pin, another man drawing out the metal, another man making the head of the pin and so on. That is really a manufactured good. Now we are not even making a pin or a paperclip, not even a grass cutter, it is called the *visikaththa*, which is imported from China, with a wooden handle now a days.

But if you were to speak to an economist in any university department in this country, in any of the right-wing think tanks, in the government, the response would probably be that you're talking about 19th century capitalism, you're talking about an older form of capitalism. Their argument would be that Sri Lanka should be shifting to financial services or maybe logistics etc. That's where the growth is going to come from. So who cares if we don't make all of these things? In fact, who cares if we don't produce rice? Let's just import rice from wherever it's cheaper.

Yes, but in order to import rice you must have a foreign exchange surplus. An industrial economy, which by definition has a high productivity of labour, has a high rate of capital accumulation. Without capital accumulation you can't do anything, or hope to do anything. So you need capital, in the form of producer goods.

Are we not ascribing certain ideal-typical qualities to the bourgeoisie, to the capitalist, which in fact do not exist, and which may have only existed for a brief historical span and that too for reasons that have nothing to do with them, and everything to do with state policy and the nature of those economies like France, or Germany, or England at the turn of the 19th century? And isn't this just another myth as much shared by the Left as the Right? The Right believe that capitalists function in a certain kind of way and they only just need the state to leave them alone and they will do fine, and the Left who are hostile to these capitalists, when we analyse what they're doing or how they're doing, we compare it to our reading of *Das Kapital* or the industrial revolution and think that's what they ought to be doing here and aren't. Isn't this how we are evaluating Sri Lankan capitalism?

Yes, but capitalists make their money in different situations, first they could have been building manor houses, like the aristocracy in England. Then they turned

into merchants, and from merchants they turned to industrial capital, and then to production capital. And within production capital there are different varieties, there is production capital like making furniture, or garments, and there is production capital that is more complex, which requires a high level of technology and a high level of risk and also the investment of capital of a certain type. So, fixed capital, and within fixed capital a predominance of plant and machinery instead of capital of the purely infrastructure type. Now a road or a railway does not create new goods, it is merely auxiliary to the process...

But without that road or railway you're not going to be able to get the production from A to B ...

Yes, but it is not directly involved, it is not interacting between labour and capital in the manufacture of finished goods. When the Indian railways were being built and British investors were investing in them, there was one man who is said to have stated – he does not care what happens to his investment, whether it is dumped into the Hooghly or converted into brick and mortar. So these things like infrastructure, they don't bring capital and skills together, that is a separate activity, which is not involved in the manufacture of finished commodities.

Why are multilateral lenders, like the Asian Development Bank, big enthusiasts of infrastructure projects? For them it's about highways, roads, and connectivity, about how we are going to make Trincomalee a new growth zone.

You can go on developing the infrastructure till you're blue in the face, but what exactly do you want to transport? When I was in Singapore and working in the Institute of South East Asian Studies there was in the room next to mine, a Singaporean of Indian origin, who was a competent statistician. One day he told me that he was quite excited because Lee Kuan Yew, the Prime Minister, had sent him a letter, saying that there is a proposal to start a new Engineering Faculty in the National University of Singapore, but he would like to know the demand for engineers in 10 years' time. And then he was very excited that this man had sent him this letter and after he made his estimates, Lee Kuan Yew had written another letter thanking him. So he didn't want to plunge into another engineering faculty without really knowing the connection between more engineers and economic growth.

It is also significant to note the attitude of the metropolitan countries. there is an article¹ written

by Senaka Bibile and Sanjaya Lall who is an Oxford economist, describing how when Sri Lanka wanted to develop a pharmaceuticals industry, it was struck down by western countries. The American ambassador had personally called on Mrs. Bandaranaike and said that they will have to rethink their aid to Sri Lanka if they go ahead with this pharmaceutical industry. Even during the cholera epidemic in Ceylon when the government was trying to import tetracycline tablets from a very much cheaper source in Germany than from a standard British firm where the price differential was enormous, the western pharmaceutical industry prevented us from doing that.

So we must go into the reasons as to why and what types of investments the ascribed metropolitan countries would like to allow in the periphery. First they went into plantation, then after the end of the war, they went into more sophisticated industries. Take the chemical fertilizer industry in Europe. It had a direct vested interest in promoting the green revolution because it expanded the demand for chemical fertilizer, pesticides and insecticides at an enormous rate. I have mentioned a number of these things in my book. Our loss of political sovereignty is at the root of our economic problems.



References

1 Lall, S and Bibile, S 1977, 'The political economy of controlling transnationals: the pharmaceutical industry in Sri Lanka (1972-1976)', *World Development*, vol. 5, no. 8, pp. 677-697