

Chapter 4

The Politics of Market Reform at a Time of Ethnic Conflict: Sri Lanka in the Jayewardene Years

Rajesh Venugopal

This chapter explores the politics of market reform in Sri Lanka and its relationship to the escalating ethnic conflict during the J.R. Jayawardene period of 1977-88. It describes how the exacerbation of the ethnic conflict in these years occurred in the context, and as a largely unintended by-product, of a larger political strategy directed primarily at winning consent for a radical programme of marketisation. In doing so, it also draws a broader conclusion that due to certain enduring features in the structure of Sri Lankan electoral politics, market reforming governments are inherently in a weak position to implement state reforms of the calibre necessary to address the ethnic conflict.

This broader conclusion has particular relevance in understanding the political strategies and coalitions that emerged subsequently in the 1990s under Presidents Premadasa and Kumaratunga. It also provides a broad analytical framework to evaluate the failure of the ambitious peace process from December 2001 to April 2004 under the United National Front (UNF) government of Ranil Wickremasinghe. Wickremasinghe explicitly crafted a two track parallel agenda of accelerated market reforms and deep concessions on the ethnic conflict. Leaving aside the specificities of this project and the many idiosyncratic problems in its formulation and implementation (see for example Bastian 2005 and Venugopal 2009), the comparative historical experience of the 1980s provides insights as to the inherent limitations of this approach.

INTRODUCTION

In 1977, the UNP government of J.R. Jayewardene initiated a landmark change in the direction of Sri Lanka's economic policies. After almost four decades of the steady expansion of state welfare provision, regulation, and direct participation in the economy, Jayewardene inaugurated a risky and fairly radical programme of market liberalization. Sri Lanka was one of the first countries in the developing world – after Chile and Indonesia – to implement market reforms, and soon enjoyed the benefits of a wave of foreign aid by western donors who were eager for these to be seen to succeed. In the first two years of the reforms, the UNP deregulated foreign trade, removed import controls, devalued the exchange rate by 43 percent, eliminated subsidies on food and petrol, liberalised internal agricultural markets, reduced export duties, encouraged foreign investment, established export processing zones, modified labour legislation, and deregulated credit markets.¹

The economic reform period, and the aftermath of the 1977 elections also witnessed a paradoxical escalation in the island's ethnic conflict. After three decades of what may be termed 'parliamentary federalism', the centre of gravity of Tamil political activity was shifting decisively in the direction of separatism in terms of its goals, and militancy in terms of methods. The 1977 elections had led to the ascendancy of the Tamil United Liberation Front (TULF), an umbrella organization formed largely out of the old Federal Party (FP), which had contested and won a decisive share of the Tamil vote on the basis of an explicitly separatist platform. Over the period 1977-83, there was an increasing struggle for power between the Colombo-based parliamentary leadership of the TULF, who were inclined towards a political compromise with Jayewardene, and the Jaffna-based militant youth groups that they had earlier patronised and presumed to control.²

It had long been supposed by the UNP leadership of that time that faster economic growth and a reduction in youth unemployment would help to address the fundamental economic causes of the ethnic conflict. Indeed, for a combination of

¹ On the reforms, see Athukorala and Jayasuriya (1994), Jayawardena et al (1987), Stern (1984), White and Wignaraja (1992), Herring (1987).

² On Tamil nationalism, see Ponnambalam (1983), Bose (1994), Gunasingam (1999), Wilson (2000).

economic and cultural factors, the UNP's traditional support base among the business community has been the segment of society least interested in pursuing the ethnic conflict and least invested in the logic of Sinhala nationalism. As Jonathan Spencer explains:

The political and class interests of Sri Lanka's rulers in late-70s and early-80s would have been best served by a speedy settlement of the Tamil problem.

That such a settlement was not reached must in part be attributed to the rulers own reluctance to depart from imperatives of national destiny. (Spencer 1990, 246)

Bastian (1990) similarly describes how the 'rational capitalists' of the UNP had little to gain by provoking a civil war and much to lose. It was in the strong material interests of the business elites to defuse the ethnic conflict lest it grow and burden their ambitious plans for economic growth. Nevertheless, it was on the UNP's watch that the simmering ethnic conflict erupted into civil war.

In July 1983, an LTTE attack on an army patrol in Jaffna, timed to disrupt a critical TULF convention, sparked a furious orgy of anti-Tamil rioting in the capital Colombo and elsewhere. Some 2,000 – 3,000 Tamil civilians are presumed to have been killed in the violence, leading to the evacuation of hundreds of thousands of Tamils as refugees either north to Jaffna, or abroad.³ Although the civil war as such did not effectively take shape until around mid-1984, it is common to date its beginning to July 1983, as it marked a distinct point of political-military rupture from the past. In the many accounts and analyses of the July 1983 riots and the events that preceded it, the involvement of the state agencies, the UNP party, and leading figures in the government has been clearly established. The UNP was responsible for establishing a culture of authoritarian violence in the months preceding the July 1983 riots, particularly in their conduct of the very violent and probably fraudulent referendum exercise of December 1982 (Samarakone 1984). UNP party activists, and particularly

³ On the July 1983 riots, see Race & Class (1984b), Kanapathipillai (1990), Tambiah (1986) and Senaratne (1997).

the outspoken Minister for Industries, Cyril Mathew, were virulent Tamil-baiters who were suspected of have inspired, if not to have actually organized, anti-Tamil violence. Mathew is widely suspected to have been involved in the circumstances of the burning of the Jaffna library in June 1981 during his visit there, an incident that inflamed Tamil opinion and that helped to propel it firmly in the direction of separatism. He has also been accused of taking a leading role in organising the July 1983 riots (Race & Class 1984a).

What then is the relationship between the market reforms of 1977, and the outbreak of civil war that occurred in 1983? Why did the UNP, a party identified primarily with the interests of Sri Lanka's capitalist class and with the market reform programme, become a key participant in the escalation of a brutal civil war that was counter-productive to their material interests? I review some of the existing approaches to the relationship between reforms and conflict in Sri Lanka, and in doing so, advance an alternative proposition. In brief, I argue that the outbreak of the conflict was the unintended consequence of their primary policy agenda, the market reforms. More specifically, I argue that it was in strategizing the politics of market reforms – i.e., the process by which the government sought to find legitimacy and win public consent for their policies and neutralise their opponents that the circumstances of the exacerbation of the civil war occurred.

As a corollary to this, I advance a more general proposition that market reforming governments are in a weak position to implement a peaceful resolution to the ethnic conflict, because they lack the political capital, legitimacy and authority needed to do so; and because the actual economic impact of the reforms is likely to catalyse a joint, double-barrelled opposition to both the reforms and the peace process. The basis for this proposition lies in the alignment of the Sri Lankan party system with respect to both these issues, and also in the fact that market reform and the resolution of the ethnic conflict are both complementary and overlapping projects of reforming the Sinhala-dominated social democratic state. Market reforms thus bear the latent potential of inviting opposition of a Sinhala nationalist colouring – an outcome that can have strong negative consequences for the government's capacity to promote a

settlement to the ethnic conflict.

I argue that the politics of market reform at the time of the first two UNP governments of 1977-93 revolved around two mechanisms – ideological and material.⁴ In ideological terms, the market reforming UNP affected an exaggerated performance of Sinhala-Buddhist authenticity to compensate for the latent moral deficit inherent in the reforms. In material terms, they compensated for the withdrawal of the state in some spheres by the expansion of the state in other spheres. In other related research, I have explored one way in which the civil war played a functional role in providing material and to some extent, ideological support for the reform agenda through the multiplier effects of military fiscalism. By the 1990s, the army had become the single largest employer in the country, offsetting the reduction in civilian state employment under the reforms, and mitigating the growing inequalities of this period. I suggest that this had the largely unintended and unforeseen consequence of facilitating the market reform agenda by helping to win passive quiescence, if not active consent for a policy regime that was broadly opposed by large segments of the population (Venugopal 2008, chapter 5).

CAUSAL, FUNCTIONAL OR ACCIDENTAL?

Did Sri Lanka's market reforming elites engineer the civil war in order to mask their economic agenda under a veil of false consciousness? Or did the economic consequences of the reforms, in terms of greater poverty and inequality, spur Tamil grievances or Sinhalese mob violence? These and related arguments are recurrent themes in a small but significant stream of literature that has sought to establish that there is actually a causal relationship between market reforms and civil war.

For example, in a series of thought provoking articles written shortly after the August 1983 riots, the late Newton Gunasinghe used a modified Marxian framework to

⁴ I am aware that most descriptions of the UNP governments of 1977-93 concentrate on the issue of authoritarian domination, and the absence of that issue in this chapter is more an issue of emphasis, rather than relevance.

describe the differential impact of the reforms on the Sinhalese versus Tamil business strata (Gunasinghe 1984). He focused on the role of small import-substituting Sinhalese industrialists, who had previously benefited from state intervention and the high tariffs to consumer imports. The removal of import restrictions in 1977 was a hard blow to this group as they could no longer compete with cheaper imports or capitalise on their preferential access to state power. In contrast, Colombo's Tamil merchants, whose lack of access to the state had for long restricted them to commerce rather than industry, appeared to have benefited greatly from the removal of trade barriers and the consequent boom in imported goods and foreign trade. This, he argued was the context within which heightened anti-Tamil sentiment escalated in the period of the 1983 riots.

Dunham and Jayasuriya (2001) in contrast, argue that the liberalisation process, midwifed by unprecedented levels of aid flows did not actually end ethnically-biased rent-seeking from the state-sector, but expanded it, and incorporated new groups that benefited from the climate of heightened tension and authoritarianism. Politicians, bureaucrats and police and military, for example, found 'fertile ground for large-scale self-enrichment through the control of state power. ... A mutually reinforcing process of economic "reforms" and socio-political decay was thus set in motion' (Dunham and Jayasuriya 2001, 2).

Obeyesekere (1984) and Tambiah (1986), among others suggest that the sudden, unequal economic impact of the reforms caused abrupt and disorienting social repercussions, and was subsequently accompanied by the institutionalisation of political violence and greater government authoritarianism. Along similar lines, Dunham and Jayasuriya (2000) contend that Sri Lanka's generous welfare subsidies had important positive externalities in terms of buying social peace, and that their dismantling unleashed a social unravelling that has been manifest in terms of worsening problems of social order and violent conflict. As such, the growth of Tamil militancy is explained as just one manifestation of an all-encompassing violence that gripped Sri Lankan society and politics since the late-1970s. It emerged from the social upheavals, poverty, lumpenisation and socio-political decay engendered by the

reforms as well as from the increasingly violent and undemocratic measures used by the government to suppress opposition to the reforms.

Moore (1985) describes the differential impact of agricultural trade liberalisation based on the regionalised distribution of tradable versus non-tradable crops. Due to agro-climatic and historical reasons, the island's export agriculture sector in tea, rubber and coconuts was concentrated largely in the south, while agriculture in the Jaffna peninsula was restricted to minor food crops such as bananas, onions, chillies for domestic consumption. While trade liberalisation benefited the export sector in the south, it resulted in a sharp depression of prices of domestic food crops in the north. In this way, it could have fed into long-standing Tamil grievances regarding regional development inequalities in the north, relating to the unequal distribution of public sector projects and the acceleration of demographically sensitive irrigation and resettlement schemes.

There are as such a variety of fairly disparate hypotheses all of which seek to connect market reform to conflict. These include (i) the unequal impact of the reforms between rich and poor; (ii) the unequal impact of the reforms upon different elements of the ethnically-segmented business strata; (iii) the unequal regional impact of the reforms upon the north versus south; (iv) the heightened opportunities for ethnically politicised rent-seeking engendered by the massive aid boom that accompanied the reforms; (v) the increase in political violence and state authoritarianism which arose partly in response to suppressing these manifestations of social disorder, both spontaneous and organised, which emerged from the reform process. All these different explanations share a common understanding that in a society where gradations of occupation and class often intersect with regional and ethnic identities, the frustrations that resulted from the abrupt and unequal distribution of costs and benefits from the reforms either resulted or were engineered in the direction of Sinhala-Tamil hostility.⁵

⁵ See for example, Akram-Lodhi (1987) for a very classic Marxist interpretation of the Tamil-Sinhala conflict as 'class struggles cloaked in the guise of communal contradiction'.

But ultimately, that is about all that these different accounts have in common. Some of them are complementary, some are mutually contradictory, while yet others bear no relation whatsoever to one another. For example, was the conflict caused by the misdirected rage of the Sinhalese urban poor at their absolute or relative impoverishment? Or was it the negative effect of trade liberalisation on import-substituting Jaffna farmers that fuelled Tamil separatist sentiment? Or did liberalisation anger Sinhalese import-substituting industrialists who were put out of business by Tamils importers? Even more confusing are the cases where the arguments are mutually contradictory. For example, Tamil farmers are said to have been hurt by liberalisation on the one hand, but Tamil merchants are thought to have prospered on the other. It is certainly plausible that both of these occurred, but how is one supposed to aggregate these offsetting mechanisms to understand what, if at all, was the composite causal impact of liberalisation on Tamil separatism and the conflict? Similarly, rent-seeking Sinhalese entrepreneurs are supposed to have been hurt by trade liberalisation and an end to import-substitution. But others have advanced a liberalisation-conflict link from the exact opposite supposition, i.e. that Sinhalese entrepreneurs gained handsomely and disproportionately from the new opportunities for rent-seeking that emerged in the reform period.

Unfortunately, the proliferation of theory and conjecture on this issue has not been matched or resolved in any measure by empirical substantiation. The evidence that does exist is sparse, sketchy, fragmented and even anecdotal. Or else it is often incomplete in the sense that it does not adequately track the complete chain of events from liberalisation to conflict; from economics to politics.⁶ In general, there is a need for greater explanation and contextualisation in the circumstances and constraints posed.

There is firstly the problem that any attempt to formulate a plausible hypothesis linking reforms to the conflict has to contend with the great fluidity and indeterminacy in defining most of the critical variables. There are a large numbers of possible actors and actions captured within the broad categories of 'reform' and

⁶ See Moore (1990) for a comprehensive critique of the liberalisation-conflict literature in Sri Lanka.

‘conflict’. There is for example an important functional distinction which is often confused or conflated between the tactical politics of negotiating reform and the actual economic and political repercussions that emerge later as a result of the reforms. The former refers to the complexities that arise during the formulation, negotiation and implementation of individual policy measures through political parties, cabinets, legislatures and bureaucracies, often under pressing economic circumstances, and with heavy domestic and international pressure of various forms. The other, often less explored side refers to the socio-political repercussions that may result from the reforms, i.e. how the distribution of costs and benefits may generate a political backlash.

Even within each of these two categories, the difficulties in definition are aggravated by the peculiarities of the Sri Lankan case. The actual process of economic reforms was no simple, radical shift from state to market. State expenditures and public sector employment actually increased sharply during the reform period under a mammoth wave of aid-funded public sector investment projects (Herring 1994). Furthermore, most of the elements of the ethnic conflict such as Tamil separatism, Sinhala-Buddhist nationalism, militancy, anti-Tamil riots, state authoritarianism, etc., did not suddenly erupt in the post-reform period, but had already come into being well before the first set of market reforms were proposed in the budget speech of November 1977. There is as such no simple, reductive, testable cause-effect sequence between reforms and war.

In summary then, the literature on liberalisation and conflict in Sri Lanka has languished for long as a result of the fact that it was single-mindedly devoted to investigating one single link – that of whether liberalisation in 1977 caused the communal violence and the escalation to war in 1983. As Mick Moore’s authoritative review of this literature concludes, this link remains unproven (Moore 1990). Furthermore, it focuses largely on whether the post-hoc economic effects of the reforms might have generated discontent, and much less on the politics of actually implementing the reforms themselves.

THE POLITICS OF MARKET REFORM

The problematique of the politics of market reform in Sri Lanka can for most purposes, be reduced to the simple question of how democratically elected governments set about implementing unpopular economic policies that are certain to damage their electoral prospects. Sri Lanka's market reform agenda suffers from an inherent lack of popular legitimacy, and is an electoral handicap for any party that wishes to implement it. Yet, the prerogatives of a perpetually insolvent treasury, combined with pressure from foreign donors, and the powerful lobbying of domestic and foreign business groups has forced every government from 1977-2004 to pursue this unpopular agenda. How, one must ask, did they win the consent of the electorate to undertake this difficult task?

This issue is further compounded if one considers that the development of electoral politics in Sri Lanka from the 1930s to the 1970s is essentially the story of the construction of a massive social democratic state with relatively generous welfare provision. Under the cut-throat electoral pressures of universal franchise, political parties competed with one another to expand the role of the state, such that popular conceptions of the state and its relationship to the people became articulated through a new moral vocabulary of rights and entitlements. The establishment of public services such as free education and health, the provision of public employment, the protection of peasant agriculture and rural life against the pressures of internal capitalist expansion and international price pressures, the alleviation of poverty and social inequalities, together with the promotion of the Sinhala language and patronage of the Buddhist religion had over this period come to comprise the moral parameters within which the very legitimacy and stability not just of any single government, but of the state itself and the political system was hinged.

This system of political morality that regulated state-society relations in post-1956 Sri Lanka is in essence Sinhala nationalism. Nationalist ideology provided a moral lens through which electoral politics and the actions of the state could be evaluated and

imbued with legitimacy (or the lack thereof). This structure of political morality and state legitimacy is also heavily inflected by the distinct social character that Sinhala nationalism gained due to the circumstances in which it came into prominence. In socio-economic terms, the sources of support for Sinhala nationalism have tended to be with the middle classes and lower middle classes, the under-privileged and the poor, rather than the wealthy, such that the rapid spread of nationalist sentiment among wide segments of the population in the 1950s reflected the aspirations of subordinate strata of Sinhalese society, and their cumulative resentment against the domination of the English-speaking, (and largely Sinhalese) ruling elite. As a result, Sinhala nationalism is in effect the ideology of an ethnicised social democratic state in which the state is seen as having deep moral obligations towards society in general, and towards the material and spiritual needs of the Sinhala-Buddhists in particular.

The relationship between the public morality of politics, notions of popular social justice, and Sinhala nationalism framed here is resonant with James Brow's description of Sinhala nationalism as a 'dominant code of moral regulation' that politicians seek to draw upon. 'The ideal image of the social order in nationalist rhetoric is one that recognizes the responsibility of government to ensure the welfare of the common people, particularly the peasantry' (Brow 1990, 13). It also has similarities with Jani De Silva's (1997) description of how the concept of a 'just society' forms a fundamental premise that structures the discursive field of electoral politics, and is captured within the signature slogans advanced by the main electoral parties – such as the UNP's *dharmistha samajaya*, (righteous society) the SLFP's *samajavadhi samajaya* (socialist society), the LSSP's *sama samajaya* (equal society), or the insurgent JVP's *sadharana lova* (just world).⁷

To summarise thus far, the social democratic state as a political, economic and ideological project emerged in close connection, and in a self-reinforcing logic with the advancement of Sinhala nationalism and electoral politics. The illegitimacy of the market reform agenda thus stemmed from the fact it was a project intended primarily

⁷ They roughly translate into 'righteous society', 'socialist society', 'equal society', and 'just world'. Thanks to Jagath Senaratne for help with translation.

to dismantle and bypass the social democratic state – and it thus transgressed the moral economy upon which state-society relations had been balanced since at least 1956. For hundreds of thousands of people tenuously straddling the social class continuum from peasant agriculture to the semi-urban lower middle class, the state remained a critical vehicle for economic stability, basic welfare provision and upward social mobility in a market economy characterised by widespread insecurity and deprivation. By increasing the space of the market economy and diminishing that of the state, the reform agenda has clear economic repercussions that retain the latent potential to be viewed, interpreted, evaluated, and rejected on the basis of a system of thought and a moral universe constructed out of the elements of Sinhala nationalism.

It is within this universe of political morality, hinged on the role of the state in promoting social justice and articulated through the vocabulary of nationalism, that one needs to situate the paradox of the politics of market reform, which in essence is a process by which governments must engage in acts that run counter to the public morality. How would the government and the institutions of electoral politics survive such a direct assault upon the system of legitimacy which had sustained it thus far? There is, and has been in Sri Lanka and in other countries, the perpetual anxiety that the contradictions of this process would become untenable – that either democracy or reforms would give way, leading to free-market dictatorships or dirigiste democracies. And indeed, a review of the comparative literature of the politics of market reform features numerous cases where this contradiction led to great stress.

Starting with the experience of Latin America following the debt crisis in the 1980s and moving on to Eastern Europe in the 1990s, a new comparative ‘politics of adjustment’ literature emerged explicitly in order to draw lessons from successful versus unsuccessful reformers in the hope of drawing generalisations that might be deployed in the design of new programmes elsewhere. Joan Nelson, for example, asks:

Why do some governments respond promptly to signs of economic difficulty, while others muddle indecisively for years? ... And why, when confronted

with heated political protest, have some governments persisted, while others have abandoned or modified their course? (Nelson 1990, 5)

This concise research question reveals the two central features that characterise the literature. Firstly, its scope is almost entirely focused on the 'high politics' of reform, and seeks to understand how leaders, political structures, and political institutions help or hinder the reform process. Secondly, it bears the undeniable mark of being a partisan intervention into an ongoing policy process, with an often explicitly stated pro-reform agenda.

Jeff Herbst's (1993) study on the politics of adjustment in Ghana is a good example of the genre. Herbst finds that the reasons for Ghana's surprising success in implementing reforms lay in 'a particularly effective combination of coercion and legitimacy to deter outright opposition' (Herbst 1993, 45). That is, in order to negotiate the murky political swamp of market reforms, Ghana required not only an authoritarian military dictator who dealt firmly with trouble-makers. It also required a leader who had well-established pro-poor credentials, and who was thus able to secure the supine acceptance of those who were driven deeper into poverty by his reforms. Indeed, before his abrupt volte face in favour of market reforms, Rawlings was viewed as a radical and indeed revolutionary champion of redistributive reforms in favour of the poor. This meant not only that the potential opponents to his reforms were taken entirely by surprise, but that the potential leaders of any opposition movement were actually his political protégés, and were thus compromised and neutralised from the outset.

Herbst does not actually condone any of Rawlings coercive tactics or duplicity. But given that his research is explicitly addressed to the IFI's, and that he is openly in favour of the reform agenda, he equally finds it difficult to condemn Rawlings. As with much of the mainstream politics of adjustment literature, this study operates within an implicit neo-Machiavellian ethical framework whereby the ends (successful market reforms) ultimately always justify the means, however unpalatable they may be. And indeed, there are some often stunningly frank policy conclusions that emerge

of how reforms can be pushed through in the teeth of popular opposition. The success of reforms, one study plainly stated, requires centralised, extraordinary executive powers by which its opponents can be overcome:

The insulation of central decision makers from distributive claims will enhance the state's capacity to launch new initiatives. ... Change teams are relatively autonomous, even free floating, technocratic actors who are protected from the pressures of interest groups and bureaucratic rivals by strong backing from the chief executive. Though such groups must eventually forge coalitions of social supporters, *the centralization and concentration of executive authority outside of normal institutional channels is essential for breaking antireform networks*. (Haggard and Kaufman 1992, 23, emphasis added)

At a broader level, the new policy prescriptions that focused on technocrats and their insulation from electoral pressures were indicative of a significant shift in the policy agenda of the IFIs and the donor community by the early 1990s. While earlier researchers asked only how the reforms could be most expediently forced through unwilling polities, later studies were modified to ask how the same results could be obtained without disturbing the often nascent liberal democratic institutions and the legitimacy they would appear to impart to the reforms. Would democratisation and the pressures of populist politics force backtracking on market reforms leading to dirigiste democracies? Or contrarily would the imperatives of market reform bring about authoritarian politics leading to free market dictatorships? In one of the early texts on the issue, Adam Przeworski elaborated on the nature of the problem facing Eastern Europe: 'Under democratic conditions, where the discontent can find political expression at the polls, even the most promising reform strategies may be abandoned (Przeworski 1991, 136-137).

Without digressing into an expansive review, what emerges clearly from the empirical literature is that where democratic political structures were preserved through periods of aggressive market reform, they did so only in form, but not in content. Case studies

systematically describe how successful reformers manipulated and misled electorates, disoriented their opponents, and adroitly exploited loopholes in the political structure to neutralise, divert and insulate themselves from anti-reform pressure. Reforms were also frequently introduced as post-election surprises: reformist leaders were able to exploit sources of legitimacy and popularity entirely unrelated to their economic agenda as such (e.g. as erstwhile pro-democracy activists) to win power and to subsequently unveil a comprehensive package of unpalatable economic policies that were little discussed in their election campaign. Przeworski also notes without any irony that reforms are always introduced by surprise, and uses formal mathematical reasoning to contend that economic shock therapy upon an unsuspecting population is the more difficult but ultimately, the optimal solution: ‘the success of the bitter-pill strategy depends on its initial brutality’ (Przeworski 1991).

Rob Jenkins study on the politics of reform in India is an unorthodox and refreshing break from this genre, if only because it exposes the pious hypocrisy of the mainstream literature on the issue of democracy (Jenkins 1999). He contends that India’s complicated political structure facilitates the implementation of a complex and contentious market reform agenda – but it does so not because of its democratic content as such, but quite the reverse. The existence of mature liberal democratic institutions does not lead to a more inclusive reform process, but rather one that provides pro-reform leaders a variety of strategies and levers by which to subvert, diffuse, corrupt, divide, and divert sources of opposition. As he describes, ‘Pushing through reform measures requires a broad range of underhanded tactics’ and India’s democratic, federalist structure is more amenable to such tactics than a more monolithic state or dictatorship (Jenkins 1999, 206). He concludes that, ‘the federal ordering of political power helps to reduce the political pressures facing reformers at the apex of the political system’ (Jenkins 1999, 119).

In summary, a selective review of the comparative experience of adjustment demonstrates that the onerous task of winning consent for market reform policies has spurred the innovation of various methods. These include the establishment of authoritarianism or political hegemony – either in terms of political dictatorships and

the sheer absence of democratic mechanisms, or more often through the domination of extant democratic mechanisms by a pro-reform party or coalition, and the insulation of the reform agenda from the pressures of electoral politics. In other cases, reforms involved the containment of sources of opposition through coercion, cooption or corruption, but more often through legislative, political or administrative measures, such as restrictions on trade unions. Yet another set of strategies involved the promotion of alternative sources of legitimacy and political division to neutralise the illegitimacy and centrality of the reforms.

IDEOLOGICAL AND ECONOMIC COMPENSATORY MECHANISMS

Market reforms were first introduced in Sri Lanka under the ‘open economy’ agenda of the UNP government of J.R. Jayewardene after its election in July 1977 – and in situating their political strategies for implementing the reforms, one first has to go back to their recent history. The UNP was the party to which power had been transferred at independence in 1948, but had from 1956 suffered a serious problem of electability – indeed, they were out of power for 16 of the next 21 years after 1956. As President J.R. Jayewardene later described ‘the thinking in the country was that the UNP was a spent force which had outlived its purpose’ (Jayewardene 1992, ix). This problem of un-electability had much to do with the social and economic character of the UNP, a party historically composed of and for the island’s westernised bourgeois elite, a party of ‘cosmopolitan capitalists’ as it were, largely dominated by merchants, professionals, and planters from low-country Sinhalese origins, but in reality quite broad based in terms of the caste, religious and ethno-linguistic basis of its supporters, financiers, and core constituency (Shastri 2004). With the UNP as the transparent organisational vehicle of their political interests, they were identifiably a class (indeed, the ruling class) in itself and for itself.

[Insert Figure 4.1 here]

But in less than a decade after independence, the UNP had lost their grip on power. Furthermore, the changing structure of electoral politics was in danger of turning them entirely obsolete. The electoral opposition that crystallised against them in the mid-1950s was composed of their mirror image on both axes. On the one hand, a powerful opposition emerged from Sinhala nationalists who successfully characterised the UNP as representing a class of deracinated, Christianised, neo-westerners; their removal from power, and the Sinhala-isation of the state being the unfinished business of decolonisation. On the other side were the Marxist left, with their base in the organised working class and trade union movement, who were virulently opposed to the UNP as the party of the pro-western capitalists.

The source of the UNP's defeat and near-banishment from electoral politics after 1956 was largely to do with the joint ascendancy of these factors, and to the way in which they fashioned the language and moral parameters of electoral politics. As the party of cosmopolitan capitalists, the UNP was on the losing end of the two dominant issues that were animating Sri Lankan electoral politics. Indeed, in terms of electoral arithmetic, the UNP has been defeated on every subsequent occasion when the Marxist left and the Sinhala nationalist right coalesced – which happened in 1956, 1970, and most recently in 2004.

The historical role played by J.R. Jayewardene in Sri Lankan politics is that he effectively resolved the problem of the UNP's electability, which as he himself described, was a task to 'correct the image of the UNP which was considered a conservative, capitalist party' (Jayewardene 1992, ix). After assuming leadership of the party in 1973, what Jayewardene did, together with his key lieutenant Ranasinghe Premadasa, was not dissimilar to the 'popular Toryism', of Benjamin Disraeli and Randolph Churchill in 19th century Britain.⁸ That is, they found a way to render the narrow economic interests of a party of traditional elites electorally viable by fusing it with populist electoral appeal on issues such as imperial fervour or religious bigotry.⁹

⁸ Whether by coincidence or otherwise, Jayewardene's biographers specifically mention that he was an admirer of Disraeli (see De Silva and Wriggins 1994, 327).

⁹ See De Silva and Wriggins (1994), particularly chapter 14- 16 for a fairly sympathetic account of Jayewardene's reforms within the UNP in the 1973-1977 period.

In the Sri Lankan case, the UNP's task was complicated by the fact that the available raw materials for electoral populism were virtually by definition anti-UNP, so that the party had in effect to completely transform itself in order to preserve itself. It was a process guided by the kind of rationale which Giuseppe Lampedusa's fictional character, Tancredi Falconeri put so succinctly in describing the pragmatic compromises and cosmetic reforms endured by the Sicilian aristocracy in order to maintain their privilege and wealth through the Risorgimento: 'in order for everything to remain as it is, everything will have to change' (Lampedusa 2008, 50).

Between 1973-77, Jayewardene transformed the UNP by cultivating entirely new sources of support in the rural hinterland from lower classes and lower castes; by inducting an entirely new set of youthful rural populists as their election candidates; by elevating a 'man of the masses' from a low caste and distinctly non-elite background, Ranasinghe Premadasa, to the position of deputy leader of the party, then Prime Minister and eventually President; by bathing the party and the new government they formed in the symbols and rituals of Buddhist religiosity. And in the election campaign that brought the most dramatic switch from state to market in Sri Lankan history, the UNP were careful to never ever spell out the radical economic reforms that were their core policy agenda. Instead, they sought to appropriate the very language of morality that had been used against them by claiming that they were actually a socialist party, and that they would once in power, usher in the 'real socialism' that Mrs Bandaranaike and her left partners had failed to do.

In a process that began grudgingly in the aftermath of the 1956 elections, and more seriously after Jayewardene's rise to the leadership in 1973, the party that was associated in the public mind with wealthy, urban, westernised businessmen at its helm tried to convince the public that it was now a party of the rural Sinhala-Buddhist poor. Typical of the UNP's pre-market reform election rhetoric was the speech from the head of a newly opened UNP branch in Trincomalee in 1977: 'The UNP was confined to the capitalist class once but it has now been transformed into a party of

the common man.’¹⁰ The UNP’s 1977 election manifesto similarly stressed that:

The UNP is not only a democratic party: it is also a socialist party ... Our policy is to ... terminate the exploitation of man by man.

Once in power, the UNP’s strategy in implementing market reforms was effectively two-fold. Firstly, it employed what I term a ‘compensatory’ strategy, offsetting the dismantling of some parts of the social democratic state by preserving and expanding other parts of it. In effect, the UNP bought support for the market reform programme by implementing massive rural development schemes along highly compressed deadlines, expanding the scale, depth and sheer concentration of state patronage down into the village as never before, much of it funded under a massive foreign aid extravaganza. Indeed, all the talk of socialism and of empowering the common man was not as absurd or outrageous a deception as it appeared: for once in power, the UNP did, alongside its quite radical deregulation of the private sector and liberalization of trade, expand the size of the government budget, and the public sector to an extent never seen before.

Consequently, many who study economic reforms in Sri Lanka are struck (in some cases appalled) by the fact that, the size of the state actually increased significantly under reforms. In Sri Lanka, the size of the public sector increased by 20% in the first five years of market reforms, as the budget deficit reached 18% of GDP. Stern (1984) finds that half of the increase in employment during the post-liberalisation period was due to this massive expansion in aid-funded public sector investment projects.

[Insert Table 4.1 here]

One of the most high profile of these compensatory schemes was a massive public housing project called the Hundred Thousand Houses Project (HTHP), sponsored by the Prime Minister and Minister of Housing, Ranasinghe Premadasa. Upon

¹⁰ CDN 27 May 1977, ‘UNP No More a Capitalist Party’.

completion, the success of the HTHP led to a ten-fold follow-up project in 1985 called the Million Houses Project (Sirivardana 1986, Robson 1983). James Brow describes the opening of one of these housing projects in Anuradhapura district:

Celebration of the national past, and recital of the exemplary lessons it contained, were prominent features of the ceremony. The official speeches recalled that the splendid civilization of the Anuradhapura kingdom was sustained by devotion to Buddhism, and emphasized that prosperity could again be achieved if the people, assisted by government projects like the village Awakening programme, were to acquire the habits of self-reliance, mutual co-operation and virtuous living that their ancestors had displayed. In this connection much was made of the discovery within the village of a rock inscription, dating from the first century A.D., that recorded the dedication of a local tank to the upkeep of Buddhist monks. (Brow 1990, 131)

Premadasa wove the housing project within a new and innovative scheme for rural development called *Gam Udawa* or village-awakening. Each year, one site in the country would be picked – typically an impoverished, lower-caste village – for a concentrated plan of accelerated development, including housing, infrastructure, construction of new schools and public buildings, and employment generation – which would then be ceremonially unveiled in a massive week-long exhibition (on 23rd June, Premadasa’s birthday).

The 1990 *Gam Udawa*, for example, was held in a village near Kandy. According to the official tally, it involved 425 million rupees in expenditure including new houses to 10,899 families, 21 ‘re-awakened’ villages, water supply schemes, 150 tube wells, electricity schemes, new rural roads, bridges, improvements of local bridges, temples, churches and mosques, administration buildings, urban market construction, direct employment for 10,000 people, and youth skills training.

[Insert Figure 4.2 here]

An exhibition site of 85 acres was prepared for the opening in June 1990, with a model village, a massive fair-ground with mini models of important monuments in Colombo such as Town Hall, Independence Square, and the residences of the president and prime minister. There was a Gallery of Past Kings, an amusement park, an exhibit of the Mahaweli project, and a mini-science park.¹¹

Secondly, and perhaps more importantly, the UNP sought to counter and compensate their perceived deficit of native authenticity by affecting an exaggerated display of Buddhist religiosity. Just as they had successfully appropriated and neutralised the language of socialism and equality during the election campaign, the Jayewardene government also consciously sought to appropriate the vernacular and religious idiom of Sinhala nationalism and to disguise their economic agenda within its structure of signification, in order to pre-emptively neutralise the possibility that this potent language of political legitimacy be turned against them. Sarath Amunugama describes what the UNP did to overcome the legacy of their defeat by Sinhala nationalists in 1956:

The UNP, emulating the SLFP, proclaimed that they would create a 'Dharmista' (Righteous) society, a phrase resonant with Buddhist hopes. Bhikku organizations were established by the UNP in every Sinhala electorate, thereby neutralizing the SLFP's advantage. (Amunugama 1991)

One of the most graphic ways in which the UNP's new market reform strategy was formulated came through in the form of the Accelerated Mahaweli Development Programme (AMDP), a massive \$2 billion irrigation and hydro-electric power scheme which was Sri Lanka's biggest ever development project. Originally conceived in the 1960s as a grand development project covering 39% of the total island, and phased over 30 years, the project was radically compressed by the new UNP government down to an incredible six years. The revised AMDP project involved the construction of six reservoirs, five hydro-electric power plants, and the irrigation of about 112,000

¹¹ CDN, various issues 20 June 1990 – 28 June 1990.

hectares of land.

Despite the fact that this had adverse repercussions for the economic and environmental feasibility of the project, donors such as the World Bank and Britain nevertheless came forward to fund it. The funding of the AMDP was a very controversial issue in the Bank, particularly because it occurred ‘before the full engineering and economic studies usually required by the Bank were available’ (World Bank 1986, 28). A 2004 review of one of the largest of the World Bank’s six Mahaweli loans downgraded the project outcome rating from ‘unsatisfactory’ to ‘highly unsatisfactory’, describing how the development effectiveness of the scheme was ‘extremely limited’, and how the incomes of resettled farmers have declined over time, with mean incomes now below the poverty level (World Bank 2004, 19).

Nevertheless, the AMDP did generate important economic and non-economic returns for the government at the time. In political terms, the unprecedented extent of the project created vast new opportunities for patronage distribution and electoral consolidation at a variety of different levels. In ideological terms, the AMDP had immense cultural significance for the Sinhala-Buddhist imagination as a project to revitalize and repopulate this ancient territory of Sinhalese civilization.

The ambitious young minister in charge of the AMDP project, Gamini Dissanayake, never lost an opportunity to infuse the Mahaweli project with the geographic, historical and religious imagery of nationalism; such that it was never just a development project, but a vast enterprise in the accumulation of symbolic capital for the government. The pioneering ethnographic work of Serena Tennekoon (1988) describes how the government ceremonially inaugurated each of the AMDP’s dams and resettlement colonies with elaborate *jala pujas*, high profile Buddhist ceremonial rituals and water prayers: events in which the nation’s past and the future were symbolically brought together so to speak. Indeed, even the World Bank’s review of the AMDP in the mid-1980s recognised that while this mammoth development project, which they had financed heavily, was a failure on its own account, its real value was indirect and contingent, and was based on an underlying compensatory

logic:

A more important argument was the importance of Mahaweli to the fundamental shift in strategy which the Government was planning. We have already referred to the need seen by the Government, and recognized by the Bank, for an alternative vision of the future of the Sri Lankan economy. If there were to be some tampering with a central aspect of the welfare state (subsidized rice), there had to be an alternative program which caught the imagination of the people. The accelerated Mahaweli was the centrepiece of that alternative vision. In the Government's political judgment, if the Bank wanted to provide effective support to the radical policy change, it needed to support the Mahaweli. (World Bank 1986, 29)

A decade later, Jayewardene's successor Premadasa would inaugurate a new second generation of market reforms in 1989-93 period, under a similarly dizzying panoply of high profile and in this case, quite innovative rural development and poverty alleviation schemes. It was a period in which the garment industry expanded vigorously, and indeed, entrepreneurs and the private sector view the Premadasa period as the golden age in terms of the government responsiveness to their needs; and it was a period of strong economic growth (Dunham and Kelegama 1997). Dunham and Jayasuriya (2001) characterise the Premadasa period as similar to Indonesia under Suharto, 'corrupt and dictatorial, but efficient and good for economic growth' (Dunham and Jayasuriya 2001, 8-9).¹² At the same time, Premadasa raised the level of public displays of Buddhist religiosity, and the extravagance of state patronage of religion to unprecedented, 'frantic' heights (Van der Horst 1995, 131). As Janaka Biyanwila describes it, 'In promoting the interests of capital, the Premadasa regime merged ethno-nationalism with a popular religiosity, while enhancing the religiosity of the state' (Biyawila 2003, 256).

The point here is that the strategic politics of market reform in Sri Lanka emerged in the course of the historically path dependent process by which the traditional party of

¹² On this topic, see also Stokke (1997).

business struggled to find ways to become re-electable and to win consent for its policies. One of the key elements of this strategy was to not be put on the defensive on the issue of its Sinhala-Buddhist credentials. To this end, the UNP governments of the market reform period became known for their extravagant patronage of the Buddhist religion, for commissioning numerous high profile public works and development projects that had a specifically Sinhala nationalist appeal, for patronising (and thus to some extent compromising) numerous senior Buddhist monks, and through their highly visible sponsorship of religious rituals of state that recalled the glories of the Sinhala past.

Through this massive onslaught of rural development, the creation of a tightly organised and lavishly funded patronage machine, and a very effective communication programme, the UNP was, briefly, able to break out of the electoral confines that had kept it out of power, and that had forced it to depend on the ethnic and religious minority vote (Muslims, Catholics and Tamils). For a brief while in the late-1970s and 1980s, the UNP succeeded in carving out a substantial chunk of the rural Sinhala Buddhist vote.

But all this is not to say that the reform agenda sailed through smoothly under a shower of patronage spending and prayer mongering.¹³ The early years of the Jayewardene government were a period when (in the context of the complete eclipse of the old left parties and the SLFP) a new form of opposition began to be articulated that challenged the inconsistencies between the UNP's free market economics and the Sinhala-Buddhist ideals of righteousness that they were purportedly based upon. Leading Sinhalese literary and cultural personalities such as Ediriweera Sarachchandra and Gunadasa Amarasekera challenged the 'open economy' society as immoral, inhumane, and contrary to the principles of Sinhalese culture. The rise of an influential new Sinhala nationalist intellectual current in the early 1980s known as *Jathika Chinthanaya*, or 'national consciousness' are also critical in understanding the way in which opposition to market reforms and the preservation of the social-

¹³ Some of the discussion of the UNP's relationship to the Buddhist orders in the post-liberalisation period draws upon three very original studies that explore this issue in great detail – see Abeysekara (2002), Van der Horst (1995) and Kemper (1990).

democratic state became articulated through the ethical and moral idiom of Sinhala nationalism. As Gunadasa Amarasekera, one of the founders of the *Jathika Chinthanaya* school explained:

Buddhism is against capitalist ethics and against sensual excess (hedonism) ... When JR [Jayewardene] tried to introduce a capitalist ethic, we were against it culturally. In the west, protestant ethic worked for the spread of capitalism. The Buddhist ethic works for the spread of socialism. (Interview, Gunadasa Amarasekera, Colombo, 7 April 2007)

Indeed, the government's attempts to press Buddhism in the service of the 'open economy' began to falter by the early 1980s, as ideologically oriented Buddhist monks struck back, finding justification for their opposition to the 'open economy' within the Buddhist canon. As Tambiah (1992) describes,

The majority of monk-ideologues who formulate a theory of Buddhist politics read in the Buddhist canon and in later Buddhist chronicles a clear endorsement of welfare politics and state planning and redistribution. They also interpret Buddhism as being against 'self-interested action' which leads to greed, competition and even exploitation, and therefore as being against capitalism, which leads to inequality. This is a critical parameter of a type of modern interpretation of the relevance of Buddhist norms for life today. (Tambiah 1992, 118)

As Ananda Abeysekera describes, the relationship between J.R. Jayewardena and the Buddhist clergy deteriorated steadily through the 1977-87 period, as Jayewardena sought to restrict their political influence and activism (Abeysekera 2002). Tambiah describes how a number of influential Buddhist monks such as Maduluwawe Sobitha, Palipane Chandananda, and Murutettuwe Ananda, who had been co-opted into supporting the UNP in the 1970's had by the 1980's become its most vigorous public critics (Tambiah 1992, 83-108). As such, a powerful moral source of opposition to the reform agenda was being articulated through the very Sinhala nationalist framework

that the UNP had sought to appropriate and dominate. The elevated presence of Sinhala nationalism, both in their own rhetoric, and in that of their growing number of opponents, had by the 1983-84 period, effectively trapped the government within a defensive battle to preserve their moral standing, so that they increasingly struggled to time the launching of new initiatives such that they would be least problematic.

The role of the ethnic conflict, and later, the civil war can be situated within this desperate, defensive compulsion of the UNP to seize control of the mantle of Sinhala nationalism, and to starve its opponents of this potent source of political oxygen. A government vigorously pursuing the war, rather than negotiations, became unassailable as the champion of Sinhalese interests, and was able to shield its economic agenda, however unpopular, under the umbrella of patriotism. Opposition to a war-time government, especially economic opposition by trade unions, was easily dismissed at such a time as unpatriotic, and brushed aside with the heavy hand of authoritarianism and emergency regulations.

One important corollary of the prerogative of preserving legitimacy and remaining more Sinhalese than the opposition, is that it has frequently precluded market reforming governments from taking any meaningful steps to resolve the conflict by compromising with Tamil nationalist demands. Having already risked substantial political capital on the reforms, such governments have already placed themselves on the defensive and have been reluctant to further jeopardise their stability by opening themselves up to attack as complicit in the division of the nation. Besides, having positioned themselves as Sinhala nationalists, and having unleashed and encouraged chauvinism among their rank and file, and, as J.R. Jayewardene did, having inducted and promoted rabidly communal Tamil-baiters in their leading ranks, the UNP found that the consequences of their actions, in terms of the alienation and radicalisation of Tamil opinion, was becoming counterproductive to their own material interests; it was becoming impossible to push the Sinhala nationalist genie that they had invoked back into its bottle.

Conscious of the party's vulnerability to an economically-inspired political backlash

articulated through the vocabulary of nationalism, Jayewardene was, throughout 1981-86 period forced to be hesitant and careful in offering concessions on the ethnic conflict to the moderate parliamentary Tamil leadership of the TULF. Any hint of granting concessions to the TULF was sure to energize nationalist opinion, not just in the narrow sense, but it would also ignite the latent anti-reform, anti-capitalist, anti-elite, sentiment contained within Sinhala nationalism, and would revive the economic opposition, which the government had hitherto successfully dispersed, beaten, and bribed into submission. As a result, Jayewardene exhibited extreme reluctance in taking the relatively modest steps required at that early stage in the conflict to solve the ethnic crisis, even though such a solution would have been in the interests of the UNP and their economic programme. Instead, the festering ethnic conflict became incorporated at a tactical level into the everyday politics of survival for a government that was deeply defensive of its ethnic authenticity, and that had demonstrated political commitment and spent serious political capital only on the issue of economic reform.

When in July 1984, Indira Gandhi urged Jayewardene to consider a more meaningful political response to the TULF (ironically perhaps, considering it was three weeks after Operation Bluestar), he confessed that it would be impossible to sell such a package to the Sinhalese people: 'We will lose our entire base. We will lose everybody,' he told her grimly (Sabaratnam 2003, chapter 19). Indeed, the UNP government, and their economic agenda remained internally stable and domestically viable as long as they prosecuted the war in military terms and maintained an unbending obstinacy against concessions to the Tamils. Having slid into civil war partly as a result of their re-orientation towards Sinhala nationalism, the UNP found that any backtracking on this agenda would imperil the stability of their government and all it had achieved.

To this end, Jayewardene's strategy, as manifest through the tortuous All Parties Conference (APC) exercise that he dragged out from January to December 1984, was in fact not to negotiate with the TULF at all to the extent possible, for this would force him to make actual politically costly concessions. Instead, he effectively schemed to

discredit and destroy the TULF. This in turn, helped to elevate the Tamil militant groups to a position of leadership: a group which he could legitimately refuse to deal with. When the APC eventually produced a series of highly watered down devolution proposals in December 1984, they were immediately condemned and opposed by the Buddhist prelates. Within a week, Jayewardene himself had backtracked and abandoned his own proposals, which he had developed over a full year.

Indeed, when he was eventually, under extreme external pressure, forced to sign up to the modest compromise solution contained in the Indo-Sri Lanka Accord of July 1987, it did what he had feared all along, in that it triggered an almost fatal destabilization of the Sri Lankan state. The controversial provisions of the Accord allowed for the creation of devolved units of power at the provincial level (within a united Sri Lanka), and the temporary merger of the northern and eastern provinces (Bose 2002). In addition, the implementation of the Accord in the north-east was to be supervised by the induction of thousands of Indian soldiers. The Accord, and the provisions for stationing Indian troops into the island united Sinhala nationalists in furious, massive opposition, and in doing so, it also gave expression to the deep hostility to the economic reforms which had thus far remained submerged, suppressed, and scattered.

In anticipation of such a deal by the government, a powerful umbrella organisation of monks, nationalist opposition parties (SLFP, MEP and JVP) and important lay Buddhist associations sprang up in mid-1986 called the *Maubeema Surakeema Vyaparaya* (MSV), or the Movement for Safeguarding the Motherland (Matthews 1988). The MSV's growing campaign of opposition to the Accord had by the end of the year become overshadowed by the increasingly radical and violent methods of one of its most extreme constituents, the Janatha Vimukti Peramuna (JVP). Fuelled by a hybrid Sinhala nationalist – Marxist ideology, and with a social base among educated, under-privileged youth in university campuses and schools, the JVP's opposition to the Accord escalated to an underground guerrilla-style insurrection that paralysed the government for more than two years.

As Sarath Amunugama described in an important article on the nature of the surging tide of nationalist opposition to the Accord and the devolution proposals:

What was more significant for the monks however were the consequences of the UNP's 'free market' economy. Though the state sector continued to be the dominant component of the economy, the UNP managed to liberalize the manufacturing and trade sectors leading to an influx of foreign goods and the creation of wealth and employment. This also meant, however, an increase in inequality in the distribution of income. Traditional positions were downgraded while the 'mudalali' (trader) ethos was on the ascendant. It also meant that monks, intellectuals, artists, etc. who as custodians of traditional culture depended on state patronage, would be challenged by creators of new, more market oriented cultural products. Consumerism was a challenge to the 'modest life style' (alpecca) that Buddhism prescribed. (Amunugama 1991)

In relative terms then, the situation that the UNP faced in 1987 as a market reforming government that sought to offer substantial concessions to resolve the ethnic conflict proved to be completely untenable. It placed the party back in the cross-hairs of unpopularity on both the main axes that have animated Sri Lankan electoral politics since 1956. As in 1956, and later again in the 2002-2004 period the UNP had once again occupied the position of being a party that stood vulnerable both for promoting an inegalitarian, pro-capitalist economic agenda, and also on grounds of having betrayed the interests of the Sinhala-Buddhist majority.

The extremely violent insurgency of the JVP between 1987 and 1989, which for a while almost caused the collapse of the state, emerged from a massive pent-up outpouring of popular opposition to the UNP government (Chandraprema 1991, Gunasekara 1998, Gunaratna 1990). It was an opposition that was triggered, articulated, and animated by widely held nationalist concerns, but within which was also embedded a deep-seated economic opposition to the decade long reform programme, which had long been overwhelmed and smothered into silence by the UNP's electoral manipulation, and by their successful populist and religious

demagoguery.

CONCLUSIONS

This chapter has revisited the historical experience of the 1977-93 period to advance a generalised proposition on the relationship between economic reform and conflict in contemporary Sri Lanka: that a government intent on pursuing market reforms is in an inherently weak position to implement a political settlement on the ethnic conflict.

In trying to advance these two equally controversial agendas in parallel, the underlying unpopularity and illegitimacy of the reform programme compounded and magnified the growing public suspicion in the south over the government's commitment to fighting the ethnic conflict and resisting Tamil demands for territorial devolution or separation. This was the case not just for the government of Ranil Wickremasinghe – which suffered from a weak parliamentary majority, hostile co-habitation with the President, poor public relations, and an inadequate grasp of populist strategy. The fact that such a debacle was repeated in the in the mid-to late 1980s – when the UNP was under the command of an exceptionally shrewd and Machiavellian political leader with a massive parliamentary majority suggests that there are issues of structural significance beyond personality, style and tactics which need to be given greater consideration.

The proposition on the incompatibility of market reforms with ethnic settlement is of course, subject to limitations and exceptions which should be readily conceded. The possibilities for implementing an ethnic settlement and placating the TULF were arguably far greater in the early years of the Jayewardene period, when the District Development Council system was established (Matthews 1982). The immediate post-insurgency period of the Premadasa presidency in early 1990 was also arguably such a window of opportunity due to the totalizing authoritarian and ideological hegemony which Premadasa had established. Similarly, the over-arching structure of the Chandrika Kumaratunga government, which incorporated elements on all sides of the

spectrum on virtually every contentious issue – held the possibility that extreme elements might be marginalised or neutralise each other. The government of Mahinda Rajapakse in the post-2005 period has been surprisingly well placed to implement significant concessions to resolve the ethnic conflict, since it has strong Sinhala nationalist credentials, and has suspended most market reforms. This has not yet occurred at the time of writing since the government’s political authority and nationalist credentials stem from its military approach to the conflict.

In the course of developing this argument, I have examined the issue of how the strategic politics of Sri Lanka’s market reform agenda came to be connected to the escalation of the ethnic conflict during the 1980s. I describe first how the UNP sought to counter-balance the moral tensions inherent in their economic agenda with an exaggerated performance of religious adherence and ethnic authenticity – which nevertheless failed. Secondly, I suggest that the viability of the market reform programme has hinged on a compensatory logic such that the state would give with one hand what it took away with the other. Market reforms were viable only if they were accompanied by massive development projects such the AMDP, high-profile poverty alleviation schemes such as *Janasaviya*, or other ways in which the negative economic consequences of the reforms could (at least in image if not reality) be compensated by other schemes that would mitigate its effects. As a result, market reforms in practice survived because they resulted in an expansion, rather than a reduction in the size of the state; an expansion rather than a reduction in the Sinhalisation of the state.

REFERENCES

Abeysekara, A. 2002. *Colors of the Robe: Religion, Identity and Difference*. Columbia: University of South Carolina Press.

Akram-Lodhi, H. 1987. ‘Class and Chauvinism in Sri Lanka.’ *Journal of*

Contemporary Asia 17, no. 2: 160-186.

Amunugama, S. 1991. Buddhaputra and Bhumiputra? Dilemmas of Modern Sinhala Buddhist Monks in Relation to Ethnic and Political Conflict, *Religion* 21: 115-139.

Athukorala, P. and Jayasuriya, S. 1994. *Macroeconomic Policies, Crises and Growth in Sri Lanka, 1960-90*. Washington D.C.: World Bank.

Bastian, S. 1990. 'Political Economy of Ethnic Violence in Sri Lanka: The July 1983 Riots.' In V. Das (ed.). *Mirrors of Violence: Communities, Riots and Survivors*. New Delhi: Oxford University Press.

Bastian, S. 2005. 'The Economic Agenda and the Peace Process.' Colombo: Asia Foundation Sri Lanka Strategic Conflict Assessment 2005.

Biyawila, J. 2003. *Trade Unions in Sri Lanka Under Globalization: Reinventing Worker Solidarity*. Ph.D Thesis, University of Western Australia.

Bose, S. 1994. *States, Nations, Sovereignty: Sri Lanka, India and the Tamil Eelam Movement*. New Delhi: Sage.

Bose, S. 2002. 'Flawed Mediation, Chaotic Implementation: The 1987 Indo-Sri Lankan Peace Agreement', in Stedman, S.J., D. Rothchild, E. M. Cousens (eds.), *Ending Civil Wars: The Implementation of Peace Agreements*. Boulder, Col: Lynne Rienner.

Brow, J. 1990. 'The Incorporation of a Marginal Community within the Sinhalese Nation.' *Anthropological Quarterly* 63, no.1 7-17.

Chandraprema C. A. 1991. *Sri Lanka: The Years of Terror. The JVP Insurrection 1987-89* Colombo: Lake House.

De Silva, J. 1997. 'Praxis, Language and Silences – the July 1987 Uprising of the JVP in Sri Lanka.' In M. Roberts (ed). *Collective Identities Revisited*. Collective Identities, Nationalisms and Protest in Modern Sri Lanka. Colombo: Marga Publications.

De Silva, K. M. and Wriggins, H. 1994. *J.R. Jayewardene of Sri Lanka: A Political Biography. Volume Two: From 1956 to His Retirement*. London: Leo Cooper.

Dunham, D. and Kelegama, S. 1997. 'Does leadership matter in the economic reform process? Liberalization and governance in Sri Lanka, 1989–1993.' *World Development* 25, no. 2: 179-190.

Dunham, D. and Jayasuriya, S. 2000. 'Equity, Growth and Insurrection: Liberalization and the Welfare Debate in Contemporary Sri Lanka.' *Oxford Development Studies* 28: 97-110

Dunham, D. M. and Jayasuriya, S. 2001. 'Liberalisation and Political Decay: Sri Lanka's Journey from a Welfare State to a Brutalised Society.' The Hague: ISS Working Paper 352.

Gunasekara, P. 1998. *Sri Lanka in Crisis: A Lost Generation - The Untold Story*. Colombo: S. Godage and Brothers.

Gunasingam, M. 1999. *Sri Lankan Tamil Nationalism: A Study of its Origins*. Sydney: MV Publications.

Gunasinghe, N. 1984. 'Open Economy and Its Impact on Ethnic Relations in Sri Lanka.' In Committee for Rational Development (ed). *Sri Lanka, the Ethnic Conflict: Myths, Realities & Perspectives*. New Delhi: Navrang.

Haggard, S. and R. Kaufman, 1992. *The Politics of Economic Adjustment*. Princeton:

Princeton University Press.

Herbst, J. 1993. *The Politics of Reform in Ghana*. Berkeley: University of California Press.

Herring, R. 1987. 'Economic Liberalisation Policies in Sri Lanka: International Pressures, Constraints and Support', *Economic and Political Weekly* 22(8), pp.325-333.

Herring, R. 1994. 'Explaining Sri Lanka's Exceptionalism: Popular Responses to Welfarism and the Open Economy.' In J. Walton and D. Seddon, (eds.). *Free Markets & Food Riots*. New York: Blackwell.

Jayawardena, L., Maaslund, A. and Radhakrishnan, P. N. 1987. *Stabilization and Adjustment Programmes and Policies: Case Study of Sri Lanka*. Helsinki: WIDER.

Jayewardene, J. R. 1992. *Men and Memories*. New Delhi: Vikas.

Jenkins, R. 1999. *Democratic Politics and Economic Reform in India*. Cambridge: Cambridge University Press.

Kanapathipillai, V. (1990) 'July 1983: The survivors' experience' in Das, V. (ed.) *Mirrors of Violence. Communities, Riots and Survivors in South Asia*. New Delhi: Oxford University Press.

Kemper, S. 1990. 'J.R. Jayewardene, Righteousness and Realpolitik.' In J. Spencer (ed.). *Sri Lanka: History and the Roots of the Conflict*. London: Routledge.

Lampedusa, G. 2008. *Il Gattopardo*. Milano: Feltrinelli.

Matthews, B. 1982. 'District Development Councils in Sri Lanka.' *Asian Survey* 22,

no. 11: 1117-1134.

Matthews, B. 1988. Sinhala Cultural and Buddhist Patriotic Organizations in Contemporary Sri Lanka. *Pacific Affairs* 61, no. 4: 620-632.

Moore, M. 1985. *The State and Peasant Politics in Sri Lanka*. Cambridge: Cambridge University Press.

Moore, M. 1990. 'Economic Liberalization Versus Political Pluralism in Sri Lanka.' *Modern Asian Studies* 24: 341-383

Nelson, J. 1990. *Economic Crisis and Political Choice*. Princeton: Princeton University Press.

Obeyesekere, G. 1984. 'The Origins and Institutionalisation of Political Violence.' In J. Manor (ed.). *Sri Lanka in Change and Crisis*. London: Croom Helm.

Ponnambalam, S. 1983. *Sri Lanka: National Conflict and the Tamil Liberation Struggle*. London: Zed.

Przeworski, A. 1991. *Democracy and the Market: Political and Economic Reforms in Eastern Europe and Latin America*. Cambridge: Cambridge University Press.

Race & Class 1984a. 'The Mathew Doctrine.' *Race & Class* 26, no. 1: 129-138.

Race & Class 1984b. 'Sri Lanka's Week of Shame: An Eyewitness Account.' *Race & Class* 26, no. 1: 39-50.

Robson, D. 1983. *Aided Self-Help Housing in Sri Lanka*. London: H.M.S.O., ODA Report.

- Sabaratnam, T. 2003. *Pirapaharan*. [unpublished book downloaded online from <http://www.sangam.org/Sabaratnam/index.htm>].
- Samarakone, P. [pseudonym] 1984. 'The Conduct of the Referendum.' In Manor, J. (ed.). *Sri Lanka in Change and Crisis*. London: Croom Helm.
- Senaratne, J. 1997. *Political Violence in Sri Lanka 1977-1990: Riots, Insurrections, Counterinsurgencies, Foreign Intervention*. Amsterdam: VU University Press.
- Shastri, A. 2004. 'The United National Party of Sri Lanka: Reproducing Hegemony', in Mitra, S., M. Enksat and C. Spiess, (eds.), *Political Parties in South Asia*. Westport, CT: Praeger.
- Sirivardana, S. 1986. 'Reflections on the Implementation of the Million Houses Programme', *Habitat International*, 10, 3: 79-89
- Spencer, J. 1990. *A Sinhala Village in a Time of Trouble: Politics and Change in Rural Sri Lanka*. New Delhi: Oxford University Press.
- Stern, J. 1984. 'Liberalization in Sri Lanka: A Preliminary Assessment.' Harvard Institute of International Development, mimeo.
- Stokke, K. 1997. 'Authoritarianism in the Age of Market Liberalism in Sri Lanka.' *Antipode* 29, no. 4: 437-455.
- Tambiah, S. J. 1986. *Sri Lanka: Ethnic Fratricide and the Dismantling of Democracy*. Chicago: University of Chicago Press.
- Tambiah, S. J. 1992. *Buddhism Betrayed: Religion, Politics and Violence in Sri Lanka*. Chicago: University of Chicago Press.

Tennekoon, N. S. 1988. Rituals of Development: The Accelerated Mahaväli Development Program of Sri Lanka. *American Ethnologist* 15, no. 2: 294-310.

Van der Horst, J. 1995. *Who is he, what is he doing: religious rhetoric and performances in Sri Lanka during R. Premadasa's presidency (1989-1993)*. Amsterdam: VU University Press, Sri Lanka Studies 2.

Venugopal, R. 2008. *Cosmopolitan Capitalism and Sectarian Socialism: Conflict, Development and the Liberal Peace in Sri Lanka*. D.Phil thesis, University of Oxford.

Venugopal, R. 2009. 'The Making of Sri Lanka's Post-Conflict Economic Package, and the Failure of the 2001-2004 Peace Process.' In E. Newman, R. Paris and O. Richmond (eds.). *New Perspectives on Liberal Peacebuilding*. Tokyo: UNU Press.

White, H. and Wignaraja, G. 1992. 'Exchange Rates, Trade Liberalization and Aid: The Sri Lankan Experience.' *World Development* 20, no. 10: 1471-1480

Wilson, A. J. 2000. *Sri Lankan Tamil Nationalism: Its Origins and Development in the Nineteenth and Twentieth Centuries*. London: Hurst.

World Bank 1986. *The World Bank and Sri Lanka: Review of a Relationship*. World Bank Report no. 6074.

World Bank 2004. Project Performance Reassessment Report. *Sri Lanka: Third Mahaweli Ganga Development Project* (Credit 1166-CE), June 28, 2004. Report No.: 29489.

Figure 4.1 Sri Lanka Parliamentary general election vote percentages, 1952-1977, UNP versus Left + SLFP (Left parties here refers to the CP and LSSP).

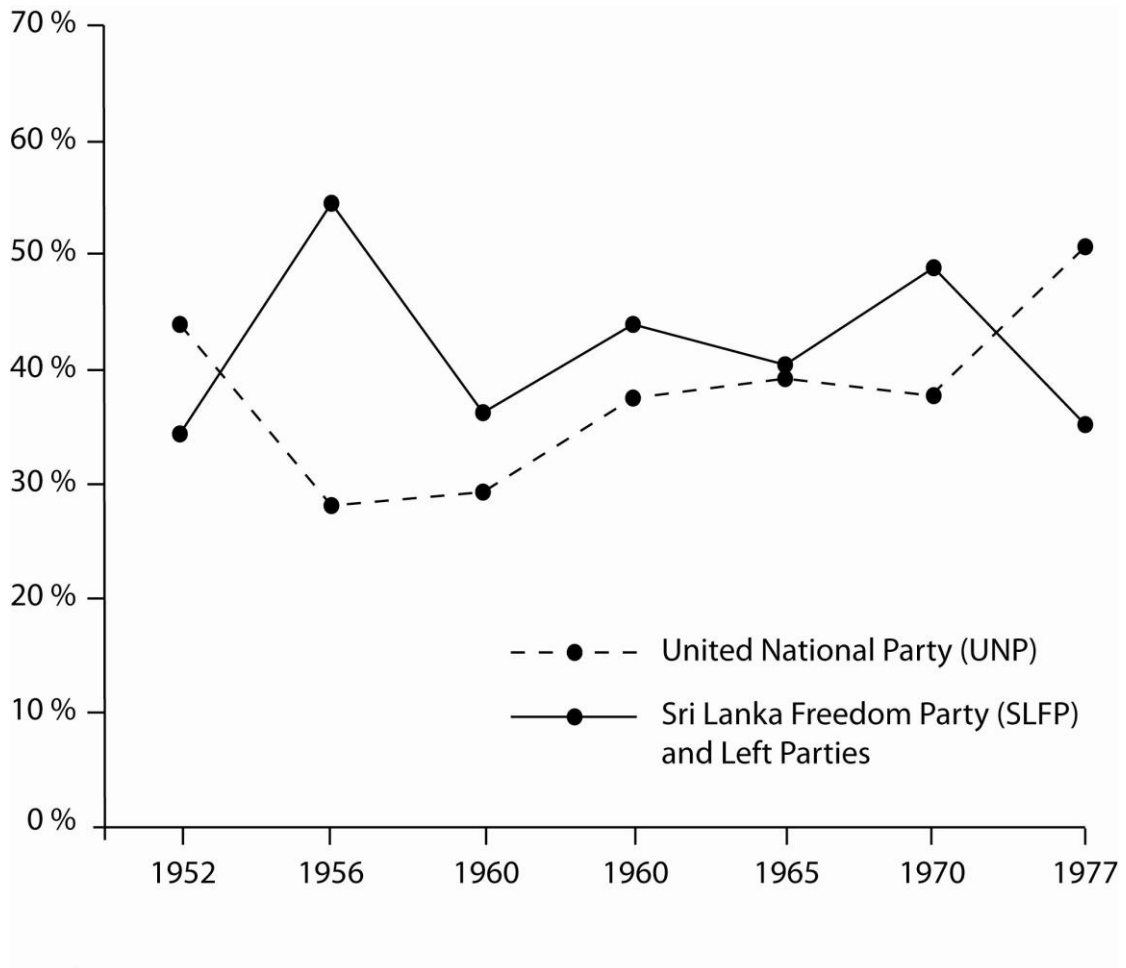


Table 4.1 Sri Lanka public sector employment, 1977-1983. Source: Central Bank of Sri Lanka Annual Report (various years).

Year	Total Public Sector Employment
1977	1,029,500
1978	1,127,119
1979	1,219,222
1980	1,245,208
1981	1,259,674
1982	1,268,046
1983	1,275,189

Figure 4.2 Map of Gam Udawa sites, 1979-1993. Source: Compiled from Ceylon Daily News (various years).

