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Public-owned Enterprises in the Politics of Sri Lanka

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Abstract

The objective of this paper is to examine the factors behind the formation and expansion of public enterprises in Sri Lanka. The public enterprises which established before independence were maintained and expanded by the two major parties, the United National Party (UNP) and the Sri Lanka Freedom Party (SLFP) during the period 1948-77. These two parties had different party ideologies, but they were committed to maintain and to develop these ventures during this era due to the influence of the Keynesian welfare state ideology. Meanwhile, this process has been reversed after 1977 due to the influence of a new state ideology, Market-oriented state ideology. This paper attempts to examine the role of the public-owned enterprises in post-independence Sri Lanka by employing the concept of the state ideology.

1. Introduction

The emergence of public enterprises in Sri Lanka was in response to the situation created by the Second World War. These enterprises were maintained and expanded by the post-independence governments during the period 1948-77. However, this process has been reversed during the post-1977 era. The paper attempts to examine the factors behind this process. The relationship between the state and the economy is decided by the ideology of the party in power. However, the state ideology becomes the determining factor in the formulation of a government's policies. The paper attempts to analyse this aspect of the government with reference to the emergence and the development of public enterprises in post-independence Sri Lanka.

Since independence the two major parties, the United National Party (UNP) and the Sri Lanka Freedom Party (SLFP) have been in power from time to time. There was a clear ideological difference between these two major parties before 1977. The UNP from its inception was in favour of developing the private enterprise economic system. Meanwhile, the SLFP was committed to the development of the public enterprises. However, the process of continuation and the development of the public enterprises took place during the period 1948-77 under the two major parties. This was due to the acceptance of the Keynesian welfare state ideology by the two major parties. Meanwhile, the two major parties have displayed similar approach towards the public-owned enterprises during the post-1977. This was also due to the acceptance of a new state ideology, the market-oriented state ideology, during the post-1977 period. In this context, the paper argues that the state ideology would be the most important factor behind the process of the continuation and the expansion of public-owned enterprises in Sri Lanka.

The concept of state ideology needs a brief clarification before examining the main theme in the paper. The state ideology means the political and economic philosophy which helped the formation of the state and its continuation. The transformation of the feudal state into the form of the laissez-faire state took place under the influence of classical liberalism from the last decade of the 18th century. However, this economic and political ideology could not survive for a longer period due to the emergence of various socio-economic problems in the society. In the meantime, liberal socialism came into the forefront in the mid-19th century to provide a theoretical foundation to the state to overcome the existing problems in the society. The process of transformation of the laissez faire into the welfare state took place due to the influence of the liberal socialism or the modern socialism. This role of the welfare state was given a further new face in the 1930s by the ideas of a classical economist, John Maynard Keynes. According to Keynes the state would be the most efficient institution which allocated goods and services to the people. The Keynesian economic ideology was considered as the state ideology from the 1930s to until the introduction of changes to the existing welfare state in the mid 1970s. John Maynard Keynes[1] argued that the state should play a wide role in order to ease the existing economic problems. He stressed the beneficent properties of the state in existing social welfare and combating market failures with selective interventions. It did not repudiate the capitalist system, but it looked to a balanced partnership between state and market for achieving economic growth, full employment and distributing the fruits of growth equitably[2]. The basic ingredients of the Keynesian welfare state ideology were adopted by Great Britain and other countries in the West with a view to overcoming difficulties emerged in the 1930s during the Great Depression. This resulted in assigning a major role to the state in these countries. This Keynesian welfare state ideology had been accepted by the right and left political parties in the United Kingdom during the period 1945-1970.

Sri Lanka also embraced this state ideology in the 1930s under the Donoughmore constitution. Meanwhile, the regime ideology depends on the political and economic programme of the party which is in power. Since independence political power has been alternated between the two major parties, the UNP and the SLFP. These two major parties owned different party ideologies, but they were equally compelled to maintain the main features of the Keynesian welfare state ideology such as the acceptance of the state as the main force during the period 1948-1977. The continuation and the expansion of public enterprises in Sri Lanka during this era can be explained in the context of this Keynesian welfare state ideology.

Meanwhile, the existing welfare state was not succeeded in providing solutions to unemployment and inflation faced by the West in the mid-1970s. Neo-liberalism became the guiding political philosophy in finding solutions to the existing problems. The market-oriented ideology was the by product of this political thought. This state ideology guided for the policy decisions of the two major regimes of Sri Lanka which were in power during the post-1977 period. According to this new ideology state should be given a limited role and a wider role must be assigned to the market forces. The process of encouraging market forces took place in Sri Lanka after the introduction of liberalized economic policies by the UNP government in 1977. This resulted in privatizing the public-owned enterprises during the post 1977-period under the two major regimes.

The state ideology which employs in the paper to examine the public policy decisions of post-independence Sri Lanka needs to be compared with some other concepts which have already used to examine state-centric public policy in post independence Sri Lanka. Kaleckian[3] theory of 'Intermediate Regimes' has been used widely to explain the rise and spread of public enterprises in the developing world. In Bangladesh Rehman Shoban is the main exponent of this approach. In India K.N.Raj[4] developed the intermediate regime argument. In Sri Lanka, Amitha Shastri[5], Newton Gunasinghe[6] and Jayadeva Uyangoda have employed the Kaleckian perspective in different ways to explain the state-centric public policy in post-independence Sri Lanka.

Michael Kalecki used the term "Intermediate Regimes" to describe governments in which the lower middle-class and rich peasantry could be identified as performing the role of the ruling class. In his view, while historically such classes had invariably served the interests of big business the contemporary world conjuncture provided conditions allowing the rise and continuance of such classes in power in many underdeveloped countries. According to Kalecki intermediate regimes accepted the principle of state interventionism and the possibility of obtaining foreign capital for development through credits from socialist counties.

Shastri argued that "S.W.R.D.Bandaranaike successfully came into power in 1956 on the basis of a heterogeneous collection of Sinhalese pettybourgeois interests which had grown to occupy positions of subordinate importance in rural society in the preceding period"[7]. He further pointed out that the above groups fulfilled very well the definition of 'lower middle class' or 'intermediate class' elaborated by Kalecki and Raj. The SLFP coalition governments attempted to reduce foreign ownership and to encourage the development of indigenous industrial capital and enterprise. To facilitate the latter, they demarcated an increasing role for the state at the economic level in the direction of providing infrastructural facilities and heavy investment through the public sector for capitalist development.

However, Shastri did not explain the formation of some public ventures under the UNP coalition regime during the period 1965-1970. It is very difficulty to explain the UNP and some of its coalition partners as 'lower middle class' by employing the concept of 'intermediate regimes' of Kalecki. Therefore, the paper attempts to overcome the existing deficiencies in the process of examination of the role of public enterprises in Sri Lanka. Further the process of the expansion of public enterprises in Sri Lanka began to reverse after 1977 due to the acceptance of liberalised economic strategies. The paper attempts to discuss this process by employing the concept of 'Market-oriented' state ideology.

2. The emergence of public-owned enterprises in Sri Lanka

The state acting as entrepreneur took place before independence under the process of establishing public-owned enterprises in Sri Lanka. The establishment of public enterprises was initiated by the colonial government in the 1940s in response to the situation created by the Second World War. The war disrupted the existing trade links and generally created scarcities in the domestic market for manufactured goods. The colonial government supported a policy of import substitution in industrial goods due to the continuation of the war. The government aimed at minimizing its own expenditure through this process. This type of state intervention also aimed at providing goods and services at affordable prices to the people.

A commission was appointed in 1942 for the first time to clarify the role of the state in the industrial and commercial activities[8]. The state should not engage directly in 'commercial' activities was the recommendation of the commission. Meanwhile, in the 1930s during the Great Depression the government paid greater attention to the development of domestic manufacturing industries. Some members of the State Council highlighted the necessity of state participation to develop industries. In response to these developments the Minister of Labour, Industry and Commerce made a policy statement in the State Council in 1934 with regard to the role of the government in the field of industrial enterprise[9]. The government appointed a commission in 1934 to inquire into the existing conditions of banking and credit and to suggest necessary steps to be taken in respect of the providing banking and credit facilities. The government established the Bank of Ceylon in 1939 on the basis of the recommendations of the banking commission.

The setting up of the Department of Commerce and Industries in 1938 facilitated the establishment and maintenance of factories, industrial centres, workshops and training centres and the undertaking of industrial research. The government took steps to allocate funds for industrial development under a loan scheme initiated in 1937. In this situation the government stepped into a new field of "commercial undertakings" and established several industrial ventures during the war years. The factories were set up for the manufacture of coir in 1940, leather boot and shoes in 1941, acetic acid in 1942, quinine and drugs in 1943, steel re-rolling in 1941, plywood in 1941, paper in 1942, glass in 1944 and ceramics in 1944.

These factories were not established with a view to developing a system of public enterprises, but only a response to the immediate situation created by the war[10]. The government was compelled to guarantee a regular supply of essential needs for the success of the war effort: acetic acid required for the manufacturing of rubber, plywood for making tea chests and a leather factory needed to make boots and hats for the soldiers, etc. However, the government wanted the private sector to take up these ventures. Therefore the government offered the necessary financial and technical assistance to private entrepreneurs. However, the private sector was unable to set up enterprises. In this situation the government had to fill the gap created in the field of local entrepreneurship. At the end of the war the government appeared to be in favour of an expanded public sector in the field of industry[11].

Two State Council committees in 1946 and 1947 advocated more and more state involvement in industry[12]. The state should play the role of an entrepreneur in addition to being a promoter of private enterprise was the opinion of the executive committee of Labour, Industry and Commerce. The committee argued that 'industrial development should be directed towards the common good of the nation: to achieve this, there must be some form of directive control"[13]. The committee divided the industries into two categories; (1) basic and (2) non-basic industries as foundation industries that serve basic needs of the community and that produce commodities essential to public health.
The committee named the following five groups as basic industries;

(1) power, (2) heavy industries (steel, iron and cement), (3) chemical industries (fertilizer), (4) specified drugs and pharmaceuticals and (5) cotton textile industries. The committee recommended that these

industries should be nationalised and be the exclusive monopoly of state enterprise[14].

The committee put forward three reasons in favour of establishing state monopolies in the area of basic industries:

(1) Basic industries obtain positions of strategic value in the development of industrial resources, so that their output and price level acquire national significance.
(2) They will provide basic needs of the community.
(3) These industries require a large capital outlay.

Further the committee recommended that private enterprise be permitted to undertake and develop non-basic industries if and when they wish to do so. These recommendations were never implemented because they were presented during the last stages of the State Council. However, these recommendations were important because they were aimed at expanding of the economic role of the state[15].

3. The Continuation of Public Enterprises under the UNP regimes of 1948-56

The UNP government that came into power at the general election of 1947 considered agricultural development to be of primary, but industrial development to be only of peripheral, importance. It was argued that these attitudes were due to two factors, firstly, the existing scarcity of foodstuffs in the immediate post-war period and secondly, by the peculiar thinking of the leaders of the government[16]. The UNP from its inception was in favour of developing private enterprises. This commitment of the party was described aptly by one of its leaders, Sir John Kotalawela. According to him 'people should not expect the government to spoon-feed them. When the people showed initiative and enterprise, he declared, the government always came to their assistance'[17]. The six-year plan of development of the government did not keep much confidence in the imported manufactured goods. The government, however, did not believe in an expanded public sector. In the meantime a powerful government commission and IBRD commission influenced the shaping of government policies. These two commissions were in favour of the state's gradual disengagement from commercial and industrial undertakings. The government commission strongly recommended that there be no state management in the industrial undertakings[18]. The delays in the process of taking decisions, bureaucratic red tape and inefficiency were given as reasons for recommending the non-retention of commercial undertakings in the hands of the government.

The commission urged the overhaul of the system of government ownership and control of enterprises. It was in favour of setting up of public corporations in some areas and in some other areas, setting up of joint stock companies with varying degrees of government participation in their capital and management. The commission justified its recommendation of closing down the government factories which produced rolled steel, ceramic, acetic acid and coir on the ground of unprofitability[19].

The World Bank Mission which visited Sri Lanka in 1951[20] also supported the above recommendations of the government commission. The Mission criticised the industrial projects of the government which were already undertaken or were under consideration. The commission explained that the primary task of the government should be the provision of the necessary environment for industrial development by providing facilities such as research, training and expert advice to the private entrepreneur. It also recommended abandoning of the glass factory and the postponement of the proposed fertilizer and steel projects. It believed that production could be increased and more rapid progress in industry achieved if the established governmental undertakings were transferred to the private sector.

The government took measures to change its policy of government participation in industry after 1953. The Government Sponsored Corporations Act, No. 19 of 1955 was brought into provide the legal framework for the implementation of the above recommendations with regard to public enterprises. No longer was the state considered as the dominant sector in economic development. Instead the government and the private sectors were considered as equal partners in economic development. 'The government and the private sector are... like oarsmen in a boat. While they must row together they must ensure that they also row in rhythm'[21]. Under these new changes, the government became a promoter rather than an entrepreneur.

In 1954 the Minister of Industries asserted that insufficient encouragement offered to the private sector was one of the main causes of the failure of the government industrial policy[22]. Meanwhile, the government made the necessary environment to transfer the government owned enterprises to the private sector in three stages under Act No.19 of 1955. The government was compelled to change its policy of public enterprise by the existing objective conditions like commercial failure of government undertakings. However, one should not forget the ideological commitment of the UNP towards the private enterprise system. The election manifesto of the UNP in the 1950s sought to make improvements in society without altering the basic structure. It sought to industrialise the country through encouraging and assisting private enterprise and cottage industries. Internationally the party associated itself with the 'Western' democratic ideals. Freedom was assumed to be associated with the dominance of free enterprise. Central planning and a high degree of state intervention in commercial undertakings were associated with dictatorship.

Under these circumstances the government neglected public enterprises. There was, however, a change of the government within a year of adopting the State Sponsored Corporations Act and therefore no public enterprise was actually transferred to the private sector. A new outlook began to emerge in the public enterprises with the change of government in 1956.

4. Intensification of Public Enterprises

The SLFP was able to come to power in 1956 by forming a broad coalition called the Mahajana Eksath Peramuna (MEP). In addition to the SLFP, the Revolutionary Lanka Sama Samasamaja Party (RLSSP), Basha Peramuna and a few other small parties were the constituent partners of this coalition. The SLFP, the chief partner of this coalition, since its inception had believed in the public ownership of all major services and industries. The SLFP's manifesto of 1951 boldly declared: 'all essential services including large plantations and transport, banking and insurance should be progressively nationalised. This is the necessary corollary of the policy of taxing high income and the control of the accumulation of too much private capital without which industry must collapse'[23].

Another partner of the MEP, the RLSSP, was also in favour of extensive state ownership. The MEP mentioned in its manifesto that it would give top priority to the preparation of real plans for development. The manifesto also proposed to nationalise all major services and industries[24]. The government in its first budget criticized the previous government's policy of industrialisation that kept the primary responsibility with the private sector and declared, 'this government proposes to take its own share of responsibility in this field'[25]. The Finance Minister also emphasised the need for industrialisation and proposed the setting up of sate factories to produce ilmenite, sugar and fertilizer and the expansion of the existing government salt industry.

The government for the first time drew a clear line between the public and the private sector investments. Basic industries like steel, chemicals, iron, cement, fertilizers, textiles and sugar were reserved for the government. The government allocation for industries in the Ten-Year Plan was increased to 20% from the 4.7% in the Six-Year Development plan of the previous government. Industrialization was considered as an effective means of employment creation. Meanwhile, the State Industrial

Corporation Act No. 49 was enacted in 1957, replacing the previous government's state sponsored Corporation Act to provide a viable legal framework for initiation and expansion of state industries. The period 1957-60 witnessed the inauguration of a number of government-owned industries producing shoes, leather goods, caustic soda, chlorine, cotton yarn, sugar, bricks, tiles and hardboard. The logic behind establishing of these industries was import substitution. The Ten Year Plan stated that 'industrialization is the solution to the problem of Ceylon's increasing work force and the country's economic growth in general. The stage is already set for initiation a process of industrialisation on the basis of import substitution'[26].

The rapid expansion of public enterprises during the period 1957-65 was not solely due to economic considerations. The MEP coalition and its chief constituent party, the SLFP, were able to be in power until 1965. The SLFP subscribed ideologically to the acceleration of the pace of state activity in the economy. The other partners in the coalition also subscribed to a similar ideology. The MEP coalition was committed to a 'socialistic' path. The intention of the government was implicit in the Ten-Year Plan. This Plan stated its commitment to the extension of the public sector. It added:

this extension is not merely the outcome of a heightening of activities in the traditional fields of irrigation and power, roads and railways, ports and harbours and so on, it is more significantly the result of direct government participation in the most important of the new sectors that the future development will create... When development is urgently needed, when it is essential to the economy that a new enterprise has to be established, it is not possible to wait or depend upon the initiative of private parties[27].

The nationalization programme of the MEP government contributed to the development of the public sector. Some of the services were nationalised in order to keep them with the state. In the case of public transport, the government realized that it was necessary for instance to extend the bus service not only on the most profitable routes, but also, in less profitable areas in order to promote development of the rural areas. In the case of the ports, the handling of cargo had been a profitable business for the private sector firms; and by controlling the port services the government in effect would be instrumental in not only regulating the flow of exports and imports but also would eventually find the resources eventually to develop the ports and harbours.

The Ten-Year Plan was formulated on the assumption that the major responsibility for initiating new industries and encouraging industrial capability should be borne by the public sector. The plan was never implemented, but ideas contained therein certainly served as a guideline to government policy. Three years later similar ideas were expressed in the Short Term Implementation programme as follows: 'The main function of the government in the context of development is to make a decisive contribution towards a breakthrough in the rate of increase of national output while establishing a socialist society'[28].

The SLFP coalition governments in power since 1956 introduced the principle of a mixed economic framework for the country. The state and private sectors should contribute to the economic development, but the former should take the leading role. The government's real intention in undertaking entrepreneurial activity appears to have been one of supplementing and complementing private enterprise. Some of the measures taken by the government were contrary to the policy of a mixed economy, but some of the steps were compatible with the idea. The government eliminated the competitive element in transport, cargo handling and insurance. Meanwhile, the government maintained competition in some areas such as textiles.

The expansion of the public sector within the structure of the mixed economy became the dominant trend in the Sri Lankan economy after 1956, except perhaps for the period of 1965-70. The UNP was able to come to power in 1965 as a coalition. The dominant partner of this coalition, the UNP, was not sympathetic to the expansion of the public sector. However, the UNP changed its ideology in 1958 and professed 'democratic socialism'. This ideology contained parliamentary democracy and mixed economy. The confidence with the private sector expressed in the policy statement entitled 'What We Believe.' The statement pointed out that the party aimed at achieving not just socialism but democratic socialism. It emphasised the role of the private sector as it was more efficient than public ownership 'What free enterprise can achieve (in some sectors of the economy), a government department or corporation cannot achieve except at greater cost and slower speed'[29]. The Finance Minister of the UNP coalition government in 1965 expressed that 'the well known democratic freedoms cannot be ensured without a healthy private sector...The government believed in a mixed economy in which both the public and the private sectors participate in the nation's development effort'[30].

During 1965-70, therefore, no major public enterprises were established in the industrial sector. Some of the public enterprises formed during this period were reconstituted versions of existing state-owned projects like the State Timber Corporation and the Ceylon Electricity Board[31]. A number of new non enterprise corporations like the Ceylon Tourist Board and the Industrial Development Board (I.D.B.) and research organisations like the

National Science Council and the Atomic Energy Authority were established to serve private enterprises. By establishing the I.D.B. the UNP government expected to provide industrial service facilities, technical advice and marketing information and import machines and raw materials[32]. During the UNP regime no pubic enterprises were handed over to the private sector due to the acceptance of the Keynesian welfare state ideology.

The SLFP as the main partner of the United Left Front (ULF) came into power in 1970. The two Marxist parties, the Lanka Sama Samaja Party (LSSP) and the Communist party (CP), were the other constituent partners of this coalition. This Front was committed to far-reaching government intervention in the economy during the election campaign. The two Marxist-oriented partners of the coalition ideologically subscribed to state intervention in the economy. The election manifesto of the Front clearly expressed that it would nationalise banks and take over the import export trade as well as domestic wholesale trade. In the sphere of industries, the manifesto stated 'heavy and capital goods industries and other suitable basic industries will be state-owned'. It further pledged, 'legal provision will be made for the state to acquire shares in both foreign and local companies'[33].

The ULF government's commitment towards assigning a leading role to the state sector was expressed by the Trotskyite Finance Minister in his first budget as follows:

The programme (of the government) lays the foundation for the building up of a socialist society. It assumes as its thesis that a developing country cannot leave development at the mercy of the interplay of forces, which are motivated by the profit, instinct. It recognises that this juncture that private enterprise has a part to play.... but the leading part must be in the hands of the public sector[34].

The Finance Minister emphasised the necessity of transforming from private to public ownership and expected to control 'commanding heights of the economy'[35]. In the field of industries, the Minister asserted that the government would follow a socialist-oriented policy. The government held that the heavy, basic and essential industries should be under state management, if not under direct state ownership[36]. This policy of the government was re-iterated by the Minister of Industries. The Minister of Industries expressed the idea that it was approved as a cabinet policy to run heavy and capital goods industries that produce basic and essential consumer items as state monopolies. The controlling of all large and important industries by the private sector would be detrimental to the interest of the nation[37].

The UF government's commitment to the development of the public sector resulted in establishing a number of public enterprises during its regime. There were 77 public enterprises in 1974 and out of these 35 were set up in 1974[38]. The Land Reform programmes implemented between 1972 and 1975 helped the state to extend its control towards the plantation sector that had been dominated by the private sector before 1972. In 1975, there were 107 identifiable enterprises in the public sector[39]. The number of nationalisation programmes undertaken by the ULF government influenced the growth of the public sector. The mining and export of graphite, Colombo Commercial Company, British Ceylon Corporation, United Motors, Colombo Gas Company and Wellawatte Weaving Mills were nationalised by the ULF government. The State Trading Corporation was set up to take over a large section of foreign trade and wholesale distribution of a number of imported items. Meanwhile, the government acquired monopoly in the importation and distribution of drugs soon after the establishment of the State Pharmaceuticals Corporation. The Paddy Marketing Board was established during the UF regime with a view to purchasing and distributing paddy.

Table 1 represents the growth of the Public enterprises in Sri Lanka during the period 1956-74. Out of 67 public enterprises established this period, 59 were set up under the SLFP coalition governments. Forty seven public enterprises were established during the period 1956 to 1974 and out of this 39 were initiated by the SLFP coalition governments. The UNP established only 8 ventures during the period 1965-70. There is no doubt that political and ideological factors played an important role in the expansion of the public sector in Sri Lanka. The provision of employment in the public sector also increased considerably due to the expansion of the public sector in Sri Lanka. The number of persons in the public sector employment had increased 165,162 in 1968 to 272,900 in 1975[40].

Table 1

The Origin and Growth of Public Enterprises: 1956-74

Type of Establishment	Number of Enterprises 1956-65	1965-70	1970-74	Total in 1974
1.Newly Established	20	8	19	47
2.Nationaliesd				
(a) Asset of Private Enterprises	3	0	6	9
(b) Only rights over certain Economic activities	1	0	10	11
TOTAL	24	8	35	67

Source: Based on Amarasinghe,, 1979, Table 1:2.

5. Market-oriented State ideology and the Public Enterprises

The post-1977 era is the next important stage in the examination of the public enterprises in Sri Lanka. As discussed in the preceding section again a new state ideology has become the most determining factor in the formulation of government policies. In the 1970s the crisis of the welfare state in the West forced a rethinking of the relation between the economy and the state, and between the sphere of private initiative and public regulation across the political spectrum. These efforts resulted in replacing the existing Keynesian Welfare State Ideology by a new ideology, which was called the Market-oriented ideology in the 1980s. The ideas put forwarded by the New Right (or neo-liberalism as it is sometimes called) with regard to the relationship between the state and the economy provided the political view of this new ideology. Both of these ideologies were products of economic and political thought. As discussed before, the Keynesian Welfare state ideology stressed the limitations and failures of market economics and the beneficial capacities of the state for promoting both social and economic prosperity. The new ideology reverses this approach and argues the general beneficence of markets and the many failures of politics.

The New Right is in general committed to the view that political life, like economic life is (or ought to be) a matter of individual freedom and initiative[41]. Accordingly, a laissez-faire or free market society is the key objective along with a 'minimal state'. The political programme of the New Right includes: the extension of the market to more and more areas of life; the creation of a state stripped of 'excessive' involvement both in the economy and in the provision of opportunities; the curtailment of the power of certain groups (for instance, trade unions) to press their aims and goals; the construction of a government capable of enforcing law and order.

As discussed before, the two major parties though having different party agendas broadly accepted the main component of the Keynesian welfare state ideology, the strengthening the process of the state, during the period 1948-77. The maintenance of this process was the biggest dilemma faced by the policy makers in Sri Lanka in the mid-1970s. The UNP at the general election of 1977 highlighted socio-economic problems in its manifesto and addressed them on its platforms. The party did present radical changes to the existing problems in the country during its campaign. The policy changes introduced in its first budget in November were a radical approach to the existing problems. In this budget the Finance Minister said:

> ... this country could not have economic growth and development, could not go forward and solve problems of production and employment until we create one economy in this country, a free and just economy with one exchange rate, with no restrictive controls and a rational fiscal, financial and monetary policy.. We have to put an end once and for all to the black market economy and give an impetus to free growth in the context of a democratic socialist society[42].

The government introduced a set of new economic policies in November 1977 and subsequently, for structural adjustment, one of the most significant changes was a shift from the inward-looking 'closed' and controlled economy to an outward-looking economy with a heavy market orientation[43]. The administrative controls in respect of foreign exchange and import transactions were virtually withdrawn. A shift of resources from consumption and welfare-oriented programmes towards production and employment-related strategies was emphasized in an attempt to revitalize the economy.

The policy changes introduced to Sri Lanka under the liberalized economic policies were an attempt to change the existing nature of the 'political market' in the country. The liberalized policies introduced in 1977 were very similar to the ideas embodied in the New Right and Public Choice thought. Most of the economic reforms of the government attempted to identify the deficiencies of the 'excessive involvement' of the state. The measures taken to reduce the excessive involvement of the state inevitably resulted in selling a large number of public enterprises to the private sector.

6. The UNP and the Process of Privatisation of the Public Enterprises

Privatisation is a basic means both slimming the state and of increasing the competitive influence of market forces within government. The former policy requires the wholesale transfer of functions and assets to the private sector, latter involves contracting out the provision of public services. The process of privatisation aims at achieving pragmatic, tactical or systemic objectives but reasons often overlap[44]. A pragmatic approach is concerned only with the relative efficiency of public or private service delivery in achieving given ends. A tactical approach uses privatisation to pursue specific political or economic goals such as pleasing the party faithful or raising funds quickly to reduce a budget deficit. A systemic approach aims at making a 'regime change' which will shift the wholesale system towards a market economy and away from reliance upon the government[45]. The UNP regime during the period 1977-94 privatised some public ventures. Milk, Textiles, sugar, fruit canning, flour milling, cement and state distilleries were the areas in industries which come under privatisation programme. Meanwhile, privatisation had an impact on the trade areas of sugar, paddy, rubber, cement and shipping. Economic services such as transport, electricity, insurance, banking, posts and telecommunications and highways and constructions became the victims of this process[46]. The government allowed the private sector to maintain these services. The government took steps to help the private sector to run these services.

The process of privatisation had been slow in Sri Lanka until 1988. It was important to discuss the factors behind this.
It could be argued that the politicians did not wish to lose their power and influence. Most of the public sector corporations or enterprises provided jobs at all levels for their supporters and released pressure from their electorate as job providers[47]. Another point was partly reflection of fact that the techniques of privatisation, first developed as a serious programme of national policy in the UK in the early 1980s were not spread to other countries until mid-to late-1980s[48]. Meanwhile, the bureaucrats in the supervising ministries did not wish to lose their empires. These factors contributed to slowing down the privatisation programme in Sri Lanka.

The initial steps were taken to privatise the public enterprises in 1977. The actual transfer of productive assets from the public sector to the private sector had been minimal under the UNP regime[49]. More than 60% of industrial production was held by the public sector before 1982[50]. Trading monopolies were broken (both international and domestic), a transactional venture for flour milling was arranged, foreign banks were permitted to establish branches (21 as of 1982) and bus transport was open to the private sector. Meanwhile, the state significantly withdrew from economic activity, especially in the Export Promotion Zone[51]. Partial divestiture, liquidation, management contracts, franchising, etc. took place during the 1983-88 period with a considerable degree of success[52]. Two legal enactments were passed in parliament. These were the Public Corporations Act of No.22 of 1987 for the conversion of government owned business units into public corporations and the Public Company Act of No.23 of 1987 for the conversion of public corporations and government owned business units (G.O.B.U.) into public companies. These legislations were enacted as a response to a Presidential Commission on Privatisation (PCP) appointed in August 1987[53]. The public companies formed under these acts were relatively free to determine their employment levels, pay scales and were only partially subjected to government tender and investment approval procedures. The government accepted the main recommendations of the PCP in 1988 and it was decided that first, a public awareness programme should be mounted to educate the public on the positive aspects of privatisation. The UNP at the general election of 1988 campaigned for a privatisation programme and it cleverly named it *peoplisation* to attract the imagination of the middle class voters. The UNP manifesto of 1988, "A New Vision- A New deal" stated that *peoplisation* would be used as a strategy to achieve management recovery and rehabilitation of public enterprises.

After the electoral victory of the UNP, it attempted to implement the privatisation programme. The government decided to hasten the process using line ministries. Of the line ministries, the Ministry of Industries established, in 1990, a special divestiture unit which was funded by the World Bank. The Public Investment management Board (PIMB) in September 1989 replaced the PCP, and this Board was converted to Public Management Investment Company (PMIC) in March 1990. The responsibility of this committee was to provide institutional leadership to the privatisation process by preparing public enterprises for privatisation and by managing them till divestiture.

7. The SLFP and the Process of Privatization of Public Enterprises

Meanwhile, the SLFP came into power in 1994 as a broad coalition calling the People's Alliance (PA). The Marxist parties, the LSSP and the CP, also became constituent partners of this coalition. The SLFP also accepted the basic ingredients of the liberalized economic policies. The PA government's commitment to the privatization was expressed from the government's policy statement issued in 1995[54]. The PA government was not against with the existing process of privatization of public enterprises but to the manner carried out by the UNP regimes. In 1995, the Public Enterprise Reform Commission (PERC) was established and became the sole authority to undertake the privatisation programme in a more efficient and transparent manner. The PERC was entrusted with required legal powers under the Public Enterprise Reform Act No.1 of 1996. Since the inception of PERC, 35 transactions had been completed up to 31 December 1997[55].

8. Conclusion

The emergence of public enterprises in Sri Lanka was not due to an ideological commitment. They were mainly established in response to the situation created by the Second World War. The two committees appointed by the State Council in the 1930s recommended the establishment of some public ventures in the country. The responsibility of maintaining and developing of these enterprises fell into the shoulders of the two major political parties in the post-independence Sri Lanka. At the very beginning this task was delegated to the UNP government. The UNP from its inception was in favour of the development of the private enterprise economic system. This economic aspect of the government was evident from the Six-Year Development programme. In this situation the expansion of public enterprises did not take place during the UNP regimes of 1948-56. The political ideology of the party was further encouraged by a local commission and the recommendations of the World Bank team which visited Sri Lanka in 1951. These two commissions influenced the shaping of government policies. They were in favour of the state's gradual disengagement from commercial and industrial undertakings. Whatever the party ideology the UNP government could not undermine the importance of the public sector in the economy in the process of the formulation of government policies. This was mainly due to the acceptance of the Keynesian welfare state ideology by the UNP government. There was evidence that the UNP regime was guided by the Keynesian welfare state ideology. At the very beginning the finance Minister of the first UNP regime, Mr. J.R. Jayewardene, in 1949 presenting the first budget expressed its desire to maintain the existing all welfare programmes of the government. In this context the UNP regimes of this era did not hand over the existing public enterprises to the private sector.

Meanwhile, the political change that took place in 1956 provided a healthy climate for the expansion of the public sector. This was mainly due to the ideological commitment of the political forces which came into power in 1956. The SLFP as the main constituent partner was able to come to power at the General Election of 1956 as a *Mahajana Eksath Permuna* (MEP) coalition. A Marxist party, the VLSSP, also became a partner of this coalition. The SLFP from the very beginning displayed a different approach towards the public enterprises. It emphasised in 1951 the necessity of nationalization of banks, big estates and insurance companies. This ideological commitment of the SLFP helped the MEP government to look at the public enterprises from a different angle from his predecessor.

The intensification of public enterprises under the MEP government was the immediate result of this new approach. A number of new public enterprises emerged due to the nationalization programme of the SLFP governments during the period 1956-65. The nationalization of transport, harbour and insurance were the ultimate result of this process. The ideological commitment of the SLFP governments during this era was not disturbed by the existing Keynesian welfare state ideology. This state ideology was a blessing of in disguise to the government.

The state ideology became the deciding factor in determining the relationship between the state and the economy again under the UNP government of 1965-70. The UNP as the main partner of a coalition came into power in 1965. The party changed its ideological commitment in 1958 in response to the political defeat of the party in 1956. The UNP, however, was not ready to undermine the importance of the role of the private sector in the economy. This ideological commitment did not become a disturbing factor in the maintaining of public enterprises during this era. The government was not only maintained the existing public ventures but also established few public enterprises. The Tourist Board, Industrial Development Board and the Research Council were some of the state enterprises established by the UNP government during this period. This was also due to the government's commitment towards the Keynesian welfare state ideology.

Meanwhile, the expansion of the public enterprises took place under the United Front (UF) government during the period 1970-77. The SLFP became the main constituent partner of this centre-left coalition government. The two Marxist parties, the LSSP and the CP, were the other two partners of this coalition. The leading sectors of the economy should be with the state was the commitment of this coalition. This resulted in establishing a number of public ventures during the period 1970-77 under the UF government.

A different approach towards state enterprises has been displayed by the governments during the post-1977 period in Sri Lanka. The Keynesian welfare state ideology had been replaced by a new state ideology, the Market-oriented state ideology, in the 1980s in the West. The undermining the role of the state and the promotion of market forces were the major ingredients of this new state ideology. Sri Lanka also began to embrace this new state ideology gradually after the introduction of liberalized economic policies by the UNP government in 1977. The process of privatization of public enterprises aimed at reducing the role of the state under the liberalized economic policies. This process was expedited by the UNP government after 1988 due to the pressure of the IMF and the World Bank.

Meanwhile, the SLFP came into power in 1994 as the People's Alliance coalition with the support of a number of political parties. The two Marxist parties, the LSSP and the CP, also became constituent partners of this coalition. The main partner of the coalition, the SLFP, openly accepted the liberalized economic policies before the General Election of 1994. There was no ideological difference between the UNP and the SLFP with regard to the formulation economic policies. This resulted in adopting the process of privatization of public ventures to the private sector under the SLFP coalitions after 1994.

Since 1994 the two Marxist parties, the Lanka Sama Samaja party (LSSP) and the Communist party (CP) have been constituent partners of the SLFP coalition governments. Irrespective of the party ideologies of these two Marxist parties they agreed to continue the basic features of liberalised economic policies. This resulted in the continuation of the process of privatisation of public enterprises even under the PA government without the resistance from its Marxist partners. The Memorandum of Understanding (MOU) signed between the SLFP and the JVP before the General Election of 2004 did not disturb to continue the major ingredients of the liberalised economic policies. Instead of reversing the process of privatisation of public enterprises in the country both parties agreed to do some minor reforms. This was another good example for the sidelining of the party ideology in the process of public policy decisions.

In this context, one can conclude that the process of the public policy making not depends on the nature of the party ideology but on the shape of the state ideology. In spite of different party programmes of the two major parties they equally compelled to maintain and expand the public enterprises under the Keynesian welfare state ideology during the period 1948-77. In the meantime, the ideological gap existed between the two major parties began to disappear under the Market-oriented state ideology. This resulted in taking a similar approach towards the state enterprises by the two major parties during the post-1977 period.

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