

**DRAFT: For Limited Circulation Only**

# **Rural Incomes, Rural Debt and the Dynamics of Accumulation in Post-war Jaffna<sup>1</sup>**

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## **Introduction**

In May 2009, a two and a half decade long civil war came to an end in Sri Lanka. The Liberation Tigers of Tamil Eelam (LTTE) were decimated and the state gained control of the entire island, including the war-torn Northern and Eastern Provinces. While the Jaffna District, the peninsula in the Northern Province, was under state military control after 1995, it had remained cut off from the rest of the country as there was no land route. It is the political economy of the Jaffna District as it regained connectivity with the rest of the country that this paper seeks to analyse. Particularly, what do the incomes of the people in rural Jaffna look like as lands that were fallow during the war are re-cultivated? What does income from agriculture look like in relation to other forms of incomes including remittances? What are the causes and consequences of the mounting indebtedness? And what is the relationship of the current structure of incomes and indebtedness in post-war Jaffna to the process of capital accumulation and dispossession?

Such questions about the economic life of the people are important as the war-torn districts of Sri Lanka are increasingly mired in an economic crisis. However, the state is either in denial or does not recognise the failure of reconstruction and the attendant crisis. Much of the debates on the post-war situation, both within Sri Lanka and in the international realm, have focused on the lack of a credible process of accountability of war-time abuses, the absence of a political settlement to the ethnic conflict and the continuing militarisation. While these are important issues and do relate to the political economy of the war devastated regions, they do not address the larger question of changes to the peoples economic lives after the destructive war. The Jaffna District was cut off from the market and processes of accumulation impacting the rest of the country. Indeed, neoliberal reforms commonly known as the open economic reforms in Sri Lanka since 1977 and the impact of changes to global economy during the past decades have drastically transformed the Sri Lanka economy, and it is during the post-war period that the war-torn districts are facing the full impact of those changes. The economic crisis in these war-torn districts has accelerated during the five years after the war and have tremendous social consequences given the devastation during the war. However, the predicament in the war-torn districts is also a snapshot of the broader problems facing the political economy Sri Lanka. Therefore, the analysis of accumulation and dispossession in the post-war Jaffna is also an entry point into a critique of postcolonial capitalism in Sri Lanka.

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## Historical Context of Jaffna

The Jaffna District, while in terms of land area is small, continues to house most of the population of the Northern Province.<sup>2</sup> Historically, Jaffna gained from advances in education with schools built during the British colonial period, particularly starting in the mid-19<sup>th</sup> Century. These schools providing English education helped produce a small stratum of professional middle class that worked in the colonial clerical service and as educationists in the rest of the country and even in Malaysia. Thus a remittance economy was also historically true for Jaffna during late colonialism.

While such educational advancement among the small stratum of upper castes led to the emergence of a middle class with some capital, it was only with a boom in cash crop production and expansion of fisheries in the late 1960s and into 1970s that there was significant capital accumulation in the countryside. Such accumulation led to rising living standards of rural households including the building of cement houses in many parts of Jaffna. Furthermore, this was also the time when land pressure in Jaffna peninsula resulted in migration and colonisation of the Vanni; the region south of Jaffna where extensive paddy cultivation became prevalent. Much of the labour in the Vanni region came to be formed by Up-Country Tamils, who were originally indentured labour brought over by the British to work in plantations. These Up-Country Tamils were displaced to the Vanni starting in the late 1950s after repeated pogroms in the central regions where the plantations are located.

The prosperity in Jaffna had a caste character. The dominant and majority caste in Jaffna is the Vellala. Due to the small holding character of land ownership by the Vellala in the relatively small land area of Jaffna, cash crop cultivation was suited for caste relations in Jaffna. The Vellala caste which had been involved in tobacco cultivation for export to the rest of the country and even South India as early as the late 19<sup>th</sup> Century, made major gains from cash crop boom in the 1960s and 1970s. (Gunasinghe 1985) Sections of the fishing community, belonging to the Karaiyar caste also gained from the fisheries boom. Caste relations in Jaffna, where a Brahmin caste is for the most part non-existent, is characterised by the upper sections of the Karaiyar fishing caste almost in par with the landowning Vellala caste. In this context, the oppressed castes consisting of those working as landless labour and those involved in Palmyrah and Coconut work launched major caste struggles around temple entry, access to wells, equal access and dignity for work. Here, the smaller stratum of middle castes supported the Vellala caste. The pitched battles around caste in the late 1960s were supported by the Communist Party.

The caste struggles emboldened the oppressed castes with respect to agricultural working conditions and access to education. It also gave them dignity in terms of access to temples and equal seating at tea shops. Among one of the more significant changes was the formation of the Palm Development Co-operative, which gave a monopoly to the production and sale of toddy to the co-operative and in the process strengthened the position of the historically exploited toddy tapping community. The co-operatives, the work of the Left, the organisation of oppressed castes around community organisations including community centres were beginning to weaken caste structure in Jaffna. (Lebbe 1979) However, the emergence of the ethnic conflict and the heightening of Tamil nationalist mobilisation in the 1970s dampened and eventually silenced the caste issue. Significantly, it is the oppressed castes from Jaffna and the displaced Up-Country Tamils who also belong to the oppressed

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<sup>2</sup> Due to the civil war, the population census was not conducted in the Northern and Eastern Provinces after 1981 until 2012. According to Census Data, Sri Lanka's total population in 2012 was 20,277,597. The population in the war affected Provinces, North is 1,060,023 and East is 1,547,377. The Jaffna District, one of five districts in the Northern Province has the majority of the population in that Province. The Jaffna District population is 583,071.

castes that became the cannon fodder in the war, as their children were the most vulnerable to recruitment by the LTTE.

Economically, the import substitution policies from 1970 to 1977 in particular, supported the cash crop boom in onions, chillies, tobacco etc, which fetched higher prices in the rest of the country. (Gunasinghe 1985) There was also a fisheries boom as sea food was exported with the introduction of trawling and fish processing facilities in Jaffna. (Scholtens 2012) It was in this context of rising standard of living and increasing social mobility that middle class youth articulated their grievances against the state's majoritarian policies privileging the Sinhala Buddhist majority community. The implementation of 'Sinhala Only' language policy, repression of non-violent protests by the Federal Party for autonomy to the Tamil regions, pogroms against Tamils living in the South, real and perceived discrimination in access to university education were the ground on which the Tamil armed insurgency began.

### **War, Displacement and the Aftermath**

With the war, not only were there immense destruction and disruption of the local economy, but also immense displacement including the emergence of a large Tamil Diaspora in the West transferring remittances to the war affected population.<sup>3</sup> Despite the heavy loss of life and the economy grinding to a halt, many of the institutions, particularly schools and co-operatives, continued to function. Schools which were supported by the state even during the war became centres from which post-war rehabilitation and resettlement was initiated. The fishers and toddy tappers co-operatives played a significant role in rallying their communities. Farmers' organisations also regrouped after bouts of displacement. Community Centres which had been abandoned with displacement were restarted after the war. In other words, despite the massive destruction of the war, the social institutions survived. This could be in part due to the structure of the organisations and participation of its members, but also in part due to the economic cushioning effect of accumulation during the decades prior to the war.

During the war, some sections of Jaffna society survived on the remittances sent by their relatives in the Diaspora. Others survived on humanitarian assistance. What was produced in the North during the war, mainly agricultural produce, remained within the North and was distributed locally. Most consumer goods from the South could not be shipped due to lack of transportation, or could not be used due to lack of electricity and shortage of fuel, or were embargoed by the Government if considered useful for the LTTE's war efforts. In the Jaffna District, there were a few industries prior to the war, such as a cement factory, and small industries producing glass, fishing nets and other goods, they did not function and were mostly destroyed during the war. The few production facilities run by co-operatives and built with donor assistance were technologically outdated. The disruption of production and the lack of capital accumulation meant there was little investment in production facilities after the war.

The Government's reconstruction policies focused on the expansion of credit along with the building of infrastructure. Agriculture and fisheries in the North and East were stimulated through a loan scheme at subsidised interest rates granted to households. Infrastructure build-out focused on roads and electrification. Such infrastructure facilitated

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<sup>3</sup> Table 1 in the Appendix, shows the considerable fall in population in Jaffna from 1981 to 2012. Furthermore, between 1981 and 2012, while Sri Lanka's population grew from 14,846,274 to 20,277,597, but the population of Jaffna District fell from 734,474 to 583,071. That is over that period a positive population growth in Sri Lanka overall of 1%, in the Jaffna District there has been negative growth, that is of -0.74%. Source: Census and Statistics.

the market for consumer goods. The Government's reconstruction strategy of building infrastructure and expanding credit failed to create business providing employment. Rather, it led to consumption on debt.

As worrying signs of the deepening economic crisis in the North and East emerge, the response of the state has been denial. The Central Bank claims that in 2012 the war affected Northern and Eastern Provinces had the highest provincial GDP growth rates of 26% and 25% respectively. In reality, this was due to the onetime boost of the construction sector and the growth of banking and finance, the latter being part of the problem. In policy circles, and in sections of the business community, the economic problems in the North are frequently dismissed as inevitable during a period of "transition".

## **Place of Research**

I left Jaffna in 1983 just before the escalation of the civil war and only visited Jaffna twice during the ceasefire period between 2002 and 2004. It was after the war in late 2009 into 2011 that I began visiting Jaffna regularly. It was during this period that I could move freely in Jaffna, and I began to consider field research to explore the political economy of post-war Jaffna. In mid-2012 I moved back to Jaffna to live, research and engage with the society coming out of war.

The location of research, Jaffna, was important for me, as it was inaccessible for decades for many intellectuals and activists who cared deeply about the social, economic and political life of the people in the war-torn districts. Furthermore, research also took an important place in my life, as I attempted to become more reflective about my own political engagement. My interest in political economy was two-fold. First, I wanted to understand historical changes with respect to land, labour and capital and how they may have contributed to the tragic situation in the North and East. Second, I wanted to engage people in the countryside. Such engagement was not possible in the past, due to activism relating to the political urgencies during the war; including the humanitarian crisis, mass human rights abuses, a constitutional political settlement, shrinking democratic space and the attacks on dissent.

My research on rural incomes and debt draws on field research in Pathemany, a village near the small town of Atchvely in Jaffna. I chose this village, because it was the only case study in Northern Sri Lanka, in one of the most extensive research projects on agrarian change conducted by the Social Scientist Association. This multi-site research project was conducted between 1980 and 1982 just before war, and provides an excellent baseline of the political economy of cash crop production in Jaffna. The principal researcher of the project Newton Gunasinghe, one of Sri Lanka's most brilliant social scientists, claimed, there have been many village studies in Sri Lanka: "But they do not make a theoretical contribution to the understanding of the socio-economic processes at work in our countryside." (Gunasinghe 1985, vii) I fully agree with that statement. My research in Pathemany is not a village study in the anthropological tradition, rather an attempt to ground my research on previous work recognising the many global and national forces at work in shaping post-war rural life under a neoliberal economic regime.

I began my field research, even as most households had returned to their livelihood that they had been practicing before the war, and where possible during the war. In Jaffna, that meant mainly cash crop cultivation and a lesser extent paddy cultivation for small holder farmers and fishing for the coastal communities. There is also the large population of landless labour dependent on wage labour when it is available. Within a few years after the war, most fields were cultivated. While there have been many challenges to cultivation with floods, crop diseases and more recently drought, agricultural production levels are back to the levels

of cultivation during the pre-war period. (District Secretariat of Jaffna 2014) However, agricultural incomes have not been increasing. Fisheries, on the other hand, have been devastated by the Indian trawlers poaching the seas around Jaffna. Both the number of fishing days and fisher incomes continue to suffer. (Kadirgamar 2014b) There is also widespread indebtedness in Jaffna linked to the failure of rural incomes, connectivity to the market for consumer goods and the expansion of credit. In this way, rural incomes and indebtedness became my questions to analyse the political economy of post-war Jaffna.

## **Failure of Rural Incomes**

The Jaffna economy is characterised by the failure of incomes and rising cost of living. How does one account for the falling incomes relative to household expenditure after the war? This problem can be analysed from two angles. First, the challenges faced by the different sectors after their integration into the market. Second, the impact of systemic changes to the rural economy after the war; in the form of monetisation of the economy, shift in rural provisioning and changes in consumption.

### *Land and Ground Rent*

The size of plots cultivated by farmers, which were historically small in Jaffna have continued to fragment. Some agricultural lands used for cash crop cultivation have been transformed into housing land.<sup>4</sup> Most farmers in Pathemany cultivate on the order of 1,000 to 4,000 crops, which is merely quarter to one acre of land<sup>5</sup>. The low agricultural incomes<sup>6</sup> are also reflected in the low cost of share cropping which is rent on the order of Rs. 6,000 for quarter acre of land<sup>7</sup>. Indeed, ground rent which had become monetised with the cash crop boom in the 1970s continues in the same form. However, as Gunasinghe describes it, during times of accumulation and growth, rent was high:

“On the one hand, the rent of land from the mid-70s to 1980 increased 2 to 3 times. On the other hand, a new system of rent came into operation which in actual fact increased the ground rent still further. The new system of rent known as ‘otti’ requires the renter to deposit a substantial amount of money with the land owner; the interest emanating from this amount forms the ground rent. When the contract comes to an end the land owner is obliged to return the entire amount to the renter. ... The new system of renting also drives the cultivators with no savings out of the cultivation process.” (Gunasinghe 1985, 213)

While both systems of rent exist today, ground rent relative to incomes and expenditure is quite low, reflecting low levels of accumulation. The process of driving out cultivators with low savings is also not true given the expansion of credit discussed below.

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<sup>4</sup> Even in the decades prior to the 1970s some of these changes were there: “For the past number of decades residential land in the peninsula has been expanding and this expansion has necessarily converted previously cultivated land into residential compounds.” (Gunasinghe 1985, 209) However, as shown in Table 1 land pressure due to demographic pressure is less. Thus the increasing conversion of cultivated land to residential land signifies in part the lack of potential for income in agriculture.

<sup>5</sup> See Appendix Chart 5 and Chart 6.

<sup>6</sup> See Appendix Chart 8.

<sup>7</sup> It is very rare for the Vella landowning caste to provide their lands for share cropping by the oppressed caste, in a monetized cash cropping arrangement where cash returns are also low. This is reflected in the low number of share cropping plots despite lack of land owned by the oppressed castes. See Appendix Chart 5 and Chart 6.

### *Rising Input Costs, Falling Prices and Capitalist Scissors Crisis*

In post-war years, there has been the increasing monetisation of the rural economy. This is in part influenced by the major expansion of credit. And it is in part shaped by the move away from subsistence production. Labour is not exchanged through networks but monetised wage labour which rose sharply after the war. Male wage labour per day costs Rs. 1,000 plus lunch and tea. Women's agricultural labour can be between Rs. 600 to Rs. 800 plus lunch and tea. However, agricultural wage labour is not available regularly. And when it comes to skilled labour relating to cash crop cultivation such as seeding, building water channels and harvesting, it is networks of groups of skilled workers from neighbouring Puttur village that are employed.

With respect to cash crop production in particular, there are much greater fluctuations in prices. At harvest time prices have been falling due to fluctuations in imports, with little coordination between the ministries of agriculture and trade, as well as price determination by traders.<sup>8</sup> Input costs have also increased from wage labour necessary at planting time and harvest to fertilizer and irrigation costs. With the expansion of credit and increasing indebtedness discussed below, there has also been extensive investment in technology from irrigation pumps to small tractors. Given that the cultivated plots are small, the return on the investment for households in such agricultural machines is low. Given the increasing individualisation of credit schemes and little movement towards co-operative or collective work, such investment costs also work against returns.<sup>9</sup> In reality, any accumulation in this context is only for the foreign producers of agricultural machinery and the banking and financial sector which has facilitated the purchase of such items on credit. These problems of increasing costs, falling incomes and lack of accumulation are not new.

Gunasinghe saw these problems emerge in early 1980s as labour costs were increasing with the boom in the mid-1970s and then other costs rose with the introduction of the open economic reforms, even as the price of cash crops declined:

“Hence the picture that emerges is on the one hand a very sharp decline in the prices relating to commercial crops and on the other a very sharp increase in the prices relating to factors of production. This process has introduced a crisis in commercial crop cultivation which may be called a capitalist Scissors Crisis.”

(Gunasinghe 1985, 214)

While these crisis conditions are similar to what can be observed now, there is also another side in the form of rising cost of living which needs to be factored.

### *Household Expenditure*

In Pathemany, the minimum household expenditure per month for a household of four or five persons is Rs. 20,000. Thus wages for wage labour on the order of Rs. 1,000 per day is not high, particularly given that wage labour is irregular. My data<sup>10</sup> corroborates with rural household expenditure from the Household Income and Expenditure Survey of 2012/2013. Food and drink expenses for the bottom 50% percent of the population in rural Sri Lanka is on the order of Rs. 10,000 to Rs. 15,000. (HIES 2013)

The increasing monetisation of costs in Pathemany are evident from the costs of firewood and fuel for cooking. If the household, does not have medium sized plots of housing land as is the case in the lower caste quarters of the village where most houses are on very

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<sup>8</sup> Interview with Agriculture Department Official.

<sup>9</sup> In the Vanni districts where paddy cultivation has been high, the influx of expensive harvest machines has led to the displacement of labour during harvest season. Furthermore, those who have invested in harvest machines are also unlikely to make the returns unless there is major move towards consolidation into large paddy farms.

<sup>10</sup> See Appendix Chart 1.

small plots on the order of 1.5 lachams (close to one tenth of an acre), in the context of declining possibilities of foraging for firewood, the cost of firewood and fuel for cooking alone can be close to Rs. 2,000 per month.<sup>11</sup> This is not the case in the Vanni where land alienation schemes have provided most families with half an acre of land and some level of subsistence including the possibility of a home garden. Thus rural provisioning has gone through a major change in the post-war years with the increasing monetisation of the economy.

## **Rural Debt and Dispossession**

The post-war reconstruction strategy of the Government has been one of expanding credit along with the building of infrastructure. In this context, the relationship of credit to indebtedness becomes important.

Pathemany, like many other villages in the country, over the years benefited from the agriculture loans that came with the Central Bank backed New Comprehensive Rural Credit Scheme in the 1970s. These are loans determined by the Central Bank based on the crop cultivated per acre of land (onion – Rs. 95,000, chilli – Rs. 65,000 etc). And on the ground, a large number of banks work with village farmers' organisations to determine who should receive such loans, which are to be paid back with a subsidised Central Bank interest after the harvest. In recent years, farmers have been unfortunate with weather conditions; harvests are failing due to untimely rains, crop diseases and more recently the drought. Furthermore, the proliferation of debt instruments and expansion of rural credit after the war have crippled rural folk from even repaying historically feasible agriculture loans.

### *Financialisation and Cascading Loans*

With the end of the war, the Government encouraged banks to open branches all over the war affected districts. The banks were initially tasked with providing loans for initiating livelihoods from restarting farms to the purchase of fishing boats. These loans on the order of Rs. 50,000 to Rs. 200,000 in the Northern districts coming with the 'Northern Spring' reconstruction program led to the proliferation of banks which are now visible in every small town. The Northern population including large sections of the Jaffna population which had been uprooted from their land and livelihoods through many bouts of displacement, readily absorbed these loans from the banks. Once the banks were established with the expansion of credit at the national level, the banks began providing self-employment loans. Banks also expanded into pawning business with the rise in global gold prices. Subsidiaries of banks and a range of finance companies also came into the rural economy providing micro-finance loans and leased hire purchasing of a range of items. The significant point here is that indebtedness in the war affected regions would not have been possible on this scale, if not for the process of displacement, uprooting from the local economy and then integration into the economy under conditions of financialisation.

The Bank of Ceylon<sup>12</sup> took the lead followed by a number of banks and financial institutions situated in Atchuvvely town next to Pathemany village providing a variety of self-employment loans, micro-finance schemes, lease purchasing loans and pawning services.

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<sup>11</sup> See Appendix Chart 4.

<sup>12</sup> The Bank of Ceylon Annual Report for 2012 states: "The Bank provides a variety of other loan schemes, such as short term "pawning" loans on personal property, loans for travel expenses, and loans for self-employed individuals and government workers. As of 31st December 2012, pawning loans & other loan schemes accounted for 44% of the retail banking loan portfolio of Bank amounting to LKR 136,962 million. Pawning loans are short-term loans that are fully secured by pledged gold coins and jewellery. Pawning loans are primarily utilised by farmers and individuals in rural areas for agricultural purposes." See BOC 2013.

Encouraged by campaigns by banks and the availability of loose credit, villagers were quickly caught in a cycle of debt, whereby they took more loans for further consumption or to pay the interest for other loans and lease purchases. Within a couple years, household debt has reached levels that cannot be repaid. Families are pawning all their gold, their leased vehicles are being seized and some are on the run from the banks and police. Devastated by the crop failures and the banks tightening credit, accumulated debt has reached crisis proportions. In Pathemany, most families including landless labourers are indebted on the order of Rs. 2 lakhs to Rs. 4 lakhs per household.

### *Loans Targeting Individuals*

A major shift in recent years is that loans are directly negotiated between the individual and the financial institution. This is unlike the agriculture loans which involves farmers' organisations. Thus in the village, many individuals have got self-employment loans up to Rs. 2 lakhs to start up shops and to buy three wheelers. The banks ask only for two guarantors, most of whom are also recipients of debt. Loans from banks are leveraged for leased hire purchasing of three wheelers and tractors.

There has been no analysis about the demand for so many shops, three-wheelers and tractors in the same village. Furthermore, many such loans are used for purposes other than self-employment; for consumption, for festivities or to repay other debts. And this approach of targeting individuals with debt without engaging village organisations makes individuals vulnerable both in the process of taking loans, where the conditions of the loans may not be clear and then to face the intimidating collectors, when loans cannot be repaid.<sup>13</sup>

### *Low Levels of Debt among Toddy Tappers in Co-operatives*

My research in Pathemany also looked at the toddy tappers belonging to the oppressed caste. While the toddy tappers are socially marginalised, a hardworking toddy tapper can earn as much as Rs. 80,000 per month. However, it is only during a short period of their life before the age of forty that such intensive toddy tapping which is physically taxing is possible. All toddy tappers belong to the Palm Development Co-operative which was given the monopoly on toddy tapping in the early 1970s. The co-operative was instrumental in reducing their exploitation by the Vellala caste, advancing the dignity of the community and providing a range of services including accident insurance and a pension plan.

The interesting fact is that the toddy tapping households are the least indebted. This is because the toddy tappers can take low interest loans from their co-operative based on their savings for pension schemes. The co-operative also is much more vigilant in monitoring the reasons for the loans, unlike the banks which expanded their loan portfolio based on competition with other banks, where bank managers were pushed to meet targets. However, the Palm Development Co-operative which survived the war and has been a great strength to its oppressed caste community is now beginning to face pressures from the market. After the war, the opening of large number of bars and the influx of beer and arrack from the South is undermining the consumption of toddy in taverns as well as the consumption of local arrack, which cannot compete with the advanced production of arrack in the South.

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<sup>13</sup> Such targeting of individuals for loans and allowing them to fend for themselves as opposed to negotiating defaulters concerns in a collective manner through farmers' organisations and co-operatives are reflective of neoliberal mechanisms of dispossession. There are two significant ways in which neoliberalism is transforming the countryside, first through indebtedness with neoliberal financialisation (Kadrigamar 2013c) and then through an emphasis on individual initiatives, where rural people are asked to fend for themselves through individual loans as well as self-employment schemes as opposed to working collectives in co-operatives or small industries. (Kadrigamar 2014a)



### *Debt tied to Housing Schemes*

Another major problem tied to the reconstruction efforts is the indebtedness tied to the housing schemes. During the latter phase of the war and soon after the war, many donors gave grants to households to rebuild houses destroyed by the war. Soon after the war, India's major contribution was 50,000 houses to the war affected each worth a grant of Rs. 550,000 given in instalments with step by step building of the house. The problem however, is that most houses cost between Rs. 800,000 and Rs. 1 million<sup>14</sup>, thus what was meant as a major cash grant has led to indebtedness in the context of the availability of credit.

### *Pawning and the Depletion of Rural Assets*

In the context of such widespread indebtedness, there has been a major decline in household assets. Rural households in the North had managed to keep some amount of gold jewellery despite the war. Indeed, historically, pawning of gold was the mechanism of fall back for rural household financing and provisioning during familial and agricultural crisis. With the boom in global gold prices between 2009 and 2012, many banks got into the pawning business in a major way even extending their hours of operation so that wage labourer could come to the banks after work. In this way, households have lost most of their gold assets through pawning<sup>15</sup> as they attempted to repay other bank loans and make instalment payments on the leased goods.

As the crisis deepened, their leased goods were ceased by the leasing companies, their gold assets have depleted and they continue to be indebted to banks. The significant point about rural debt in Pathemany or for that matter in Jaffna District and the Northern Province as a whole is that indebtedness is caused by and is mainly to the formal sector of banks and financial institutions as opposed to local money lenders. While there is of course some debt owed to relatives and local money lenders<sup>16</sup> the process of indebtedness was fuelled by the expansion of credit in the formal banking sector, and any solution requires addressing the loans by this formal sector.<sup>17</sup>

The most worrying next stage of the crisis could be if the rural households are pushed to meet food costs and repay debts, by selling their small plots of land and even houses, which are their most important assets accumulated over generations. Already, there are reports of malnutrition among children in rural households and donor agencies are concerned about widespread food insecurity among the war affected population. (Vhurumuku 2012) Furthermore, medical sources claim increasing reports of suicides and attempted suicides related to debt. Thus falling incomes and increasing indebtedness are important conditions for post-war dispossession.

### **Out Migration and the Neoliberal Circuit of Accumulation**

The faltering incomes have led a section of wage labour moving to construction.<sup>18</sup> Over the five years after the end of the war there has been a construction boom in the entire country as well as the war-torn districts. Indeed, construction now accounts for 10% of Sri Lanka's GDP as infrastructure and tourist hotels and malls absorb much of the capital

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<sup>14</sup> See Appendix Chart 17. About 25% of those surveyed have got housing grants and most of them have far exceeded the grant in building the house and much of that was built through debt.

<sup>15</sup> See Appendix Chart 15. About 85% of the surveyed households have pawned their jewelry.

<sup>16</sup> See Appendix Char 16. Only about 20% of the surveyed households claim to have such informal loans from money lenders, friends and relatives.

<sup>17</sup> This point about the formal sector vs debt to money lenders is very different indebtedness in many part of rural India where the debt is mainly to local money lenders.

<sup>18</sup> See Appendix Chart 9.

flowing into the country. It is also a major portion of the provincial GDP of the North, where in addition to road building, construction is booming with reconstruction of state and private buildings and the major housing schemes. However, this is a onetime post-war construction boom which is now beginning to slow down and the incomes of the Northern population may also be affected once such construction efforts are completed.

There has been some flow of Vanni labour to the few factories and military farms in the Vanni. Women in particular, are increasingly employed in the new MAS garment factory in Killinochi and to some garment factories in the South. Such employment in factories are stable incomes for households, as opposed to wage labour in agriculture, construction etc. which is sporadic.

While there were considerable remittances coming from immigrants to Western countries during the war that flow has been steadily decreasing since the end of the war. Once immigrants are married and immediate family members have migrated, remittances tend to decrease.<sup>19</sup> The more significant flow of remittances after the war is migrant labour to the Middle East, where a regular monthly remittance is possible.<sup>20</sup> Indebted families in particular, are depending on such remittances by young men and women to meet household expenditure in the context of the agricultural crisis and to meet their debt payments.

I have elsewhere discussed the second wave of neoliberalism in Sri Lanka in the context of the post-war development push and the flow of global finance capital to the “emerging markets”. (Kadirgamar 2013c) That second wave of neoliberalism is characterised by financialisation leading to the accumulation of capital by the local financial elite and global finance capital. The monetisation of the rural economy in Jaffna and the massive indebtedness is led by the process of financialisation in the country. The loss of assets and rural dispossession in Jaffna is linked to the accumulation of finance capital through the proliferation of banks and finance companies into the rural economy.

That process of accumulation is now reaching the next stage, where rural indebtedness is leading to out migration to work in the Middle East, and a portion of the remittances are routed back through the rural households as debt payments to banks and finance companies. These banks and finance companies are themselves increasingly indebted through the sale of euro dollar bonds in the global capital markets. Thus the new circuit of neoliberal accumulation begins with dispossession in the countryside, out migration to the Middle East where labour is exploited but provides remittances back to the village, some of portion of those remittances are in turn sent as debt payments through domestic banks to the accumulation of global finance capital.

### **By Way of Conclusion: Historical Transformation, Class and Caste**

My research into the rural economy in Jaffna was also an attempt to understand the transformation of the rural economy by the civil war and liberalisation policies that came in parallel after the cash crop boom in rural Jaffna between the 1960s and 1970s. I am fortunate to be able to draw on the theoretically rich work of Newton Gunasinghe, whose case study in the North I returned to after three decades. In this concluding section, I analyse the historical transformation underway through an analysis of capital, labour, accumulation and social relations in postcolonial Sri Lanka.

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<sup>19</sup> See Appendix Chart 11. Only about 12 of the 102 households surveyed get remittances from permanent migrants to the West.

<sup>20</sup> See Appendix Chart 12. Only about 25 of the 102 households surveyed are already getting remittances from migrant labour to the Middle East. The rate of out migration has been increasing during the post-war period.

### *Agrarian Systems and Over-Determination*

Gunasinghe and others emphasised that in plurality of agrarian systems in Sri Lanka. (Abeysekera 1985) Indeed, even within the North, the cash crop agriculture of Jaffna is very different from paddy cultivation in the Vanni. In the process of looking at these agrarian systems they attempted to analyse if each system had potential for growth or a tendency to disintegrate. They were also conscious of the macro-economic conditions including the changes with the open economic reforms during the course of their research project. They emphasised the market and the terms of trade as they impinged or over-determined these agrarian systems. While they had identified some of the dynamics of open economic policies, particularly the impact of trade liberalisation, the civil war froze the north and east of Sri Lanka in terms of these global processes. Research on political economy was also displaced by questions about ethnicity and the urgencies of addressing the conflict including work towards finding a constitutional political settlement.

Thirty years later, where neoliberal policies have continued for a considerable time in the country and such policies are in fact accelerating with what I consider to be a second wave of neoliberalism, differences between these agrarian systems are losing importance. The reproduction of agrarian systems is in crisis as they are unable to withstand the force of capital. It is not just the impact of the market and the fluctuations of prices, but also the process of financialisation and related dispossession. In other words, macro-economic changes shaped by financialisation are over-determining the agrarian systems, where adaptability and differentiation are increasingly difficult.

### *Agriculture for Subsistence*

Agricultural production might be on the cusp of change, where without radical changes to the economy including reversing the processes of financialisation and trade liberalisation, it is only large commercial interests with finances independent of debt from the financial system and are large enough to determine prices in the market that may be able to continue with agricultural production. But such change will also require a major consolidation of land which will require state repression towards land grabs. Thus the likely scenario is a steady decline of agricultural production as a form of generating rural incomes in the ensuing years. However, agricultural production for subsistence including land as a resource for survival will continue to be important, even as the crisis in the countryside deepens.

In my field research an important point that emerged about the viability of rural agricultural production and accumulation is the diversification of incomes. During the war, it is those oppressed caste households, which had the steady monthly income of at least one member of the household as a government or co-operative employee that managed to purchase land and augment their agricultural engagement. Increasingly, that is becoming the condition of agricultural production; it is only viable for those who have an alternate source of income and are not dependent on agriculture for the day to day expenditure of the household. Here again, agricultural production may take the form of subsistence.

### *Proletarianisation and Contingencies of Accumulation*

Gunasinghe and Shanmugaratnam worked with concepts of pauperisation and proletarianisation. (Gunasinghe 1985 and Shanmugaratnam 1985) That framing is useful, but has to be considered within the new circuit of neoliberal accumulation and dispossession. In this context, there is pauperisation in the sense of immiserisation of the peasantry, but it not likely to lead to agrarian change and different forms of productive relations. Rather it is more a process of proletarianisation as the younger generations are leaving agriculture all together.

This process of proletarianisation is now increasingly centred on migration to the Middle East for work.

The new circuit of accumulation for global finance capital is characterised in part by accumulation through dispossession, and not necessarily through production. (Harvey 2005) That circuit involves the double exploitation of proletarianised workers from the war devastated regions where reconstruction has failed. These workers migrate to the Middle East where they are first exploited and then part of their remittances is siphoned off for the accumulation of global finance capital. There are contingencies relevant for this circuit of accumulation. First, this circuit is dependent on the oil rents and stability in the Middle East. Second, if a barrier to migrant labour to the Middle East emerges for any reason, for example if the recent wave of anti-Muslim attacks in Sri Lanka leads to sanctions by Middle Eastern countries, it can lead to a major crisis in the Sri Lankan economy. Furthermore, the mounting debt crisis not just at the rural level but at the national level, as evident from the increasing number of non-performing loans, can create a financial system crisis and/or a balance of payment crisis, which can cripple the Sri Lankan economy as a whole. These possibilities of crisis are linked to the second wave of neoliberalism. (Kadirgamar 2013c)

### *Critiquing the notion of Transition*

In looking at the *longue duree* of changes to the Jaffna economy it is important to question the concept of “transition”. I find Kalyan Sanyal’s profound critique of the concept of transition to be important, as it has implications for the manner in which sections of society may be excluded by postcolonial capitalism. (Sanyal 2007) In the Sri Lankan context, Gunasinghe critiqued the singular narrative of agrarian change, as a transition towards capitalist development, by analysing the variations within agrarian systems and varying impacts of different factors. (Gunasinghe 1985)

As mentioned earlier, many actors who dismiss the crisis in the war-torn regions with the failure of reconstruction, explicitly or subtly deploy the notion of transition to claim there is a move towards a normal market economy. Indeed, the concept of transition becomes the justification for all forms of dispossession. It is the conservative certainty of the concept which needs to be critiqued. One starting point for a critique of transition is the importance of contingent factors. Indeed, the colonial legacy, the disruptive civil war, vulnerability of Sri Lanka’s economy to global economic forces and neoliberal processes such as financialisation can drastically reshape the path of postcolonial capitalist development.

### *Dispossession, Caste and Social Exclusion*

Neoliberal accumulation and dispossession, through the process of indebtedness leads to the rise in inequalities and uneven development. In the context of post-war Jaffna, it should be noted that indebtedness is widespread throughout society, and thus the rise in inequality has to be analysed at the national and global scale as well. These dynamics of dispossession can shape social relations over the *longue duree* including caste structure, class formation and forms of social exclusion.

In this context, what are the consequences of dispossession on peoples’ livelihoods and ways of economic life? One consequence as discussed above is proletarianisation and out migration to exploitative employment in the Middle East, which also has tremendous social costs including pressures on familial life and child rearing. In my research, I find that the most marginalised within the oppressed castes, particularly the landless labour, do not have the social capital to find avenues for employment in the Middle East. Since the landless class of oppressed castes are solely depend on wage labour in agriculture, they are now facing the direst conditions.

The consequences of dispossession are that the landless among the oppressed castes end up in a cycle of social exclusion. Such social exclusion is evident in subtle segregation of schools where some rural schools are mainly populated by the children of the landless oppressed castes and where school dropout rates are high.<sup>21</sup> Such social exclusion is then reinforced in employment and avenues for household income generation. Furthermore, in the post-war context, with a return to the land which spatially demarcated caste structure and with rural social life absorbed in temples<sup>22</sup>, caste relations are reconsolidating. This hardening of caste structure is shaped by dispossession, and if the process of indebtedness leads to the sale of land and houses owned by the oppressed castes, it will lead to further social exclusion and tremendous suffering. In Sri Lanka, colonialism, postcolonial capitalist regimes and the civil war had shaped social relations, and now in the post-war context neoliberal accumulation and dispossession are again redrawing and aggravating caste and class relations.<sup>23</sup>

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<sup>21</sup> Part of my research relates to the issue of rural education and social exclusion. See Kadirgamar 2012.

<sup>22</sup> In Pathemany, as with all over Jaffna, temples continue to be the one institution in which capital is absorbed. In the context of temples being centered on caste, the post-war rebuilding of temples and the large amounts spent on temple festivals signify a hardening of caste structure.

<sup>23</sup> These issues of class and caste in post-war Jaffna will be addressed in another paper.

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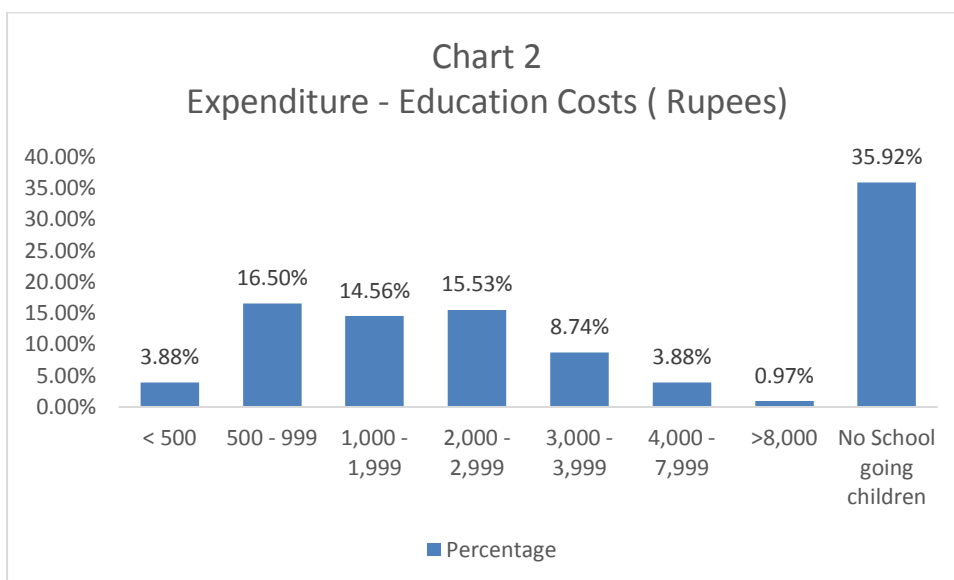
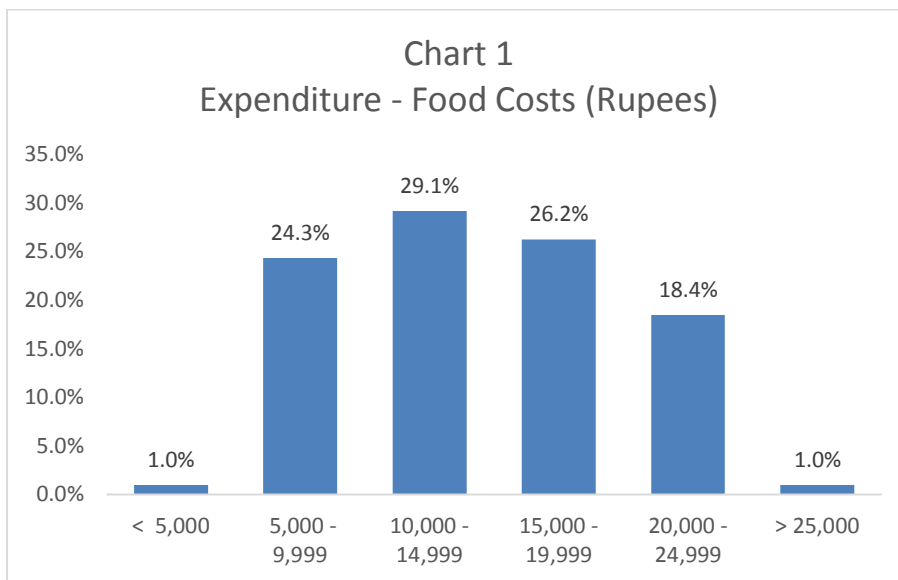
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## Appendix

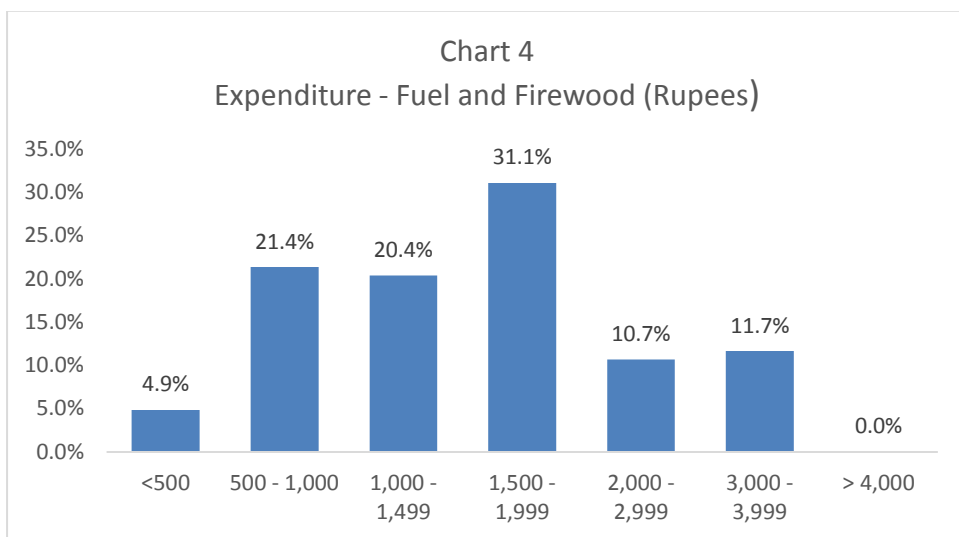
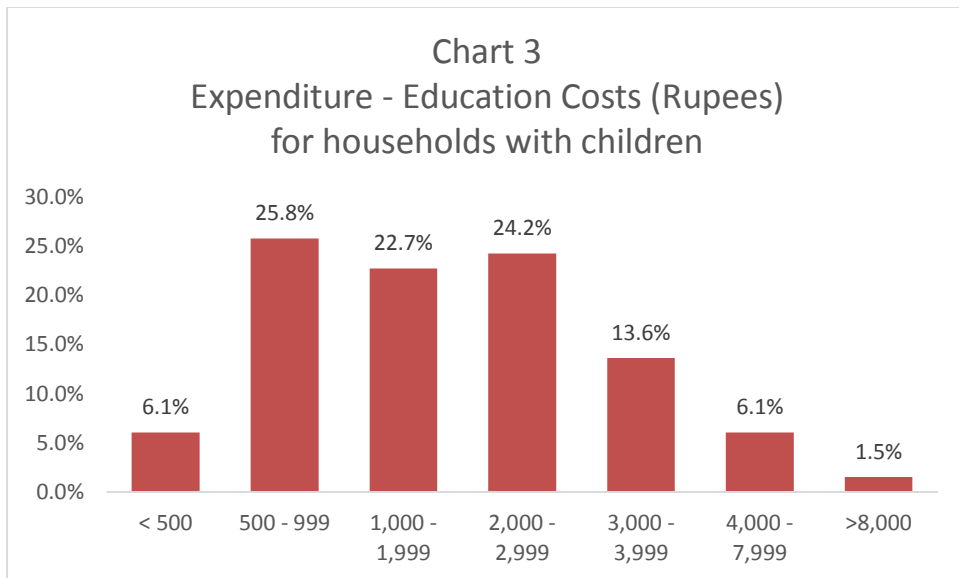
### Survey Data

The following charts are generated from a survey of 102 households in Pathemany village. This survey data reflects the responses of the households from the Bharathy Veethy side of Pathemany village, which also coincides with the oppressed caste quarters. This is in part because it was the lower castes households were more willing to participate in the survey. The survey was conducted between November 2013 and February 2014.

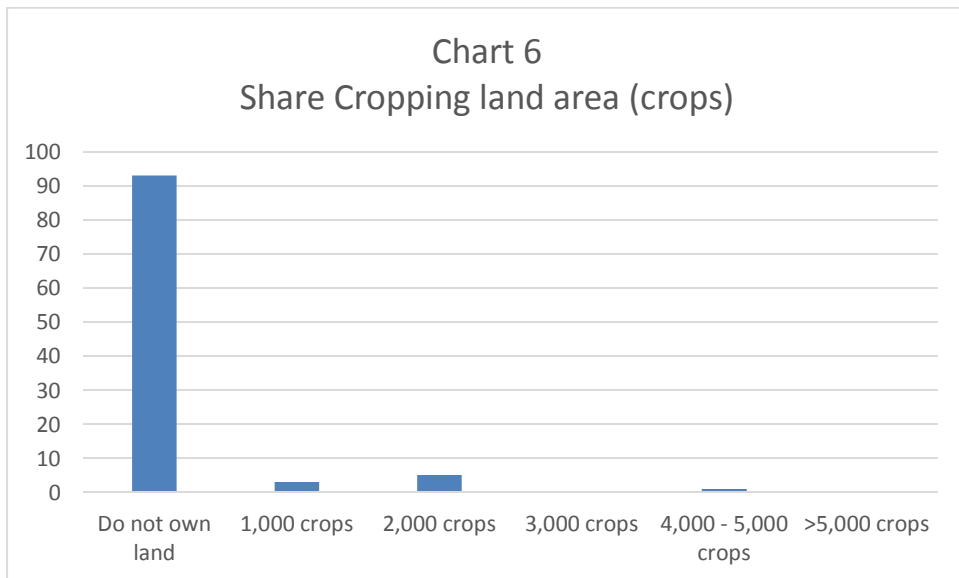
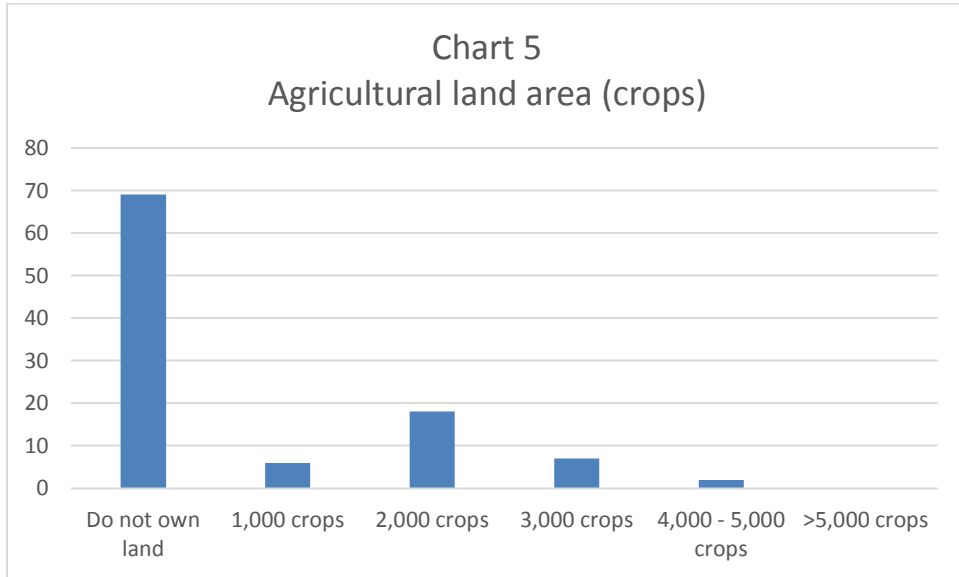
Analysis of household expenditures looked at in this survey were limited to three categories. Food costs are the main household expenditure. Next, education costs were looked to understand the increasing costs of education despite education being considered free in Sri Lanka. Finally, the cost of fuel and firewood is analysed to describe the monetisation of the economy.



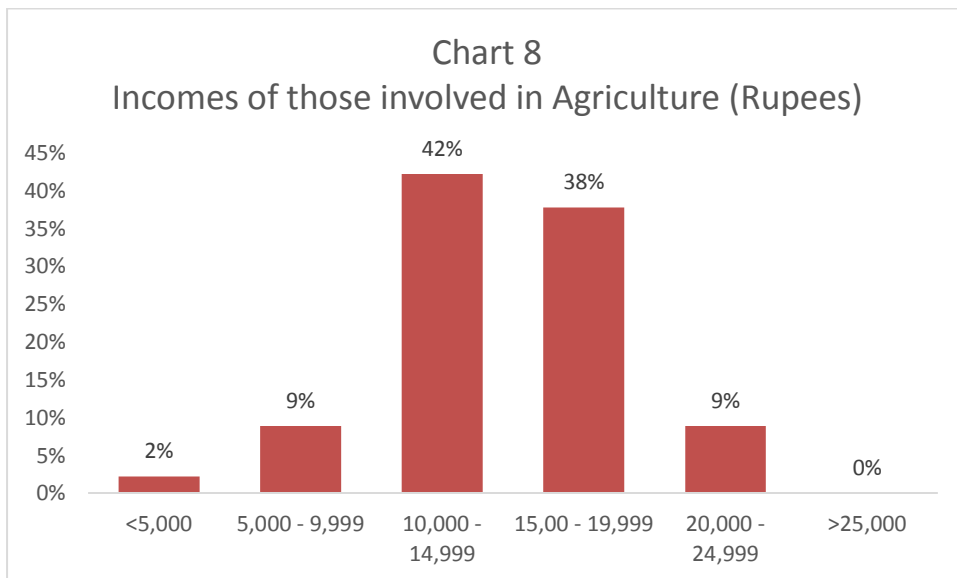
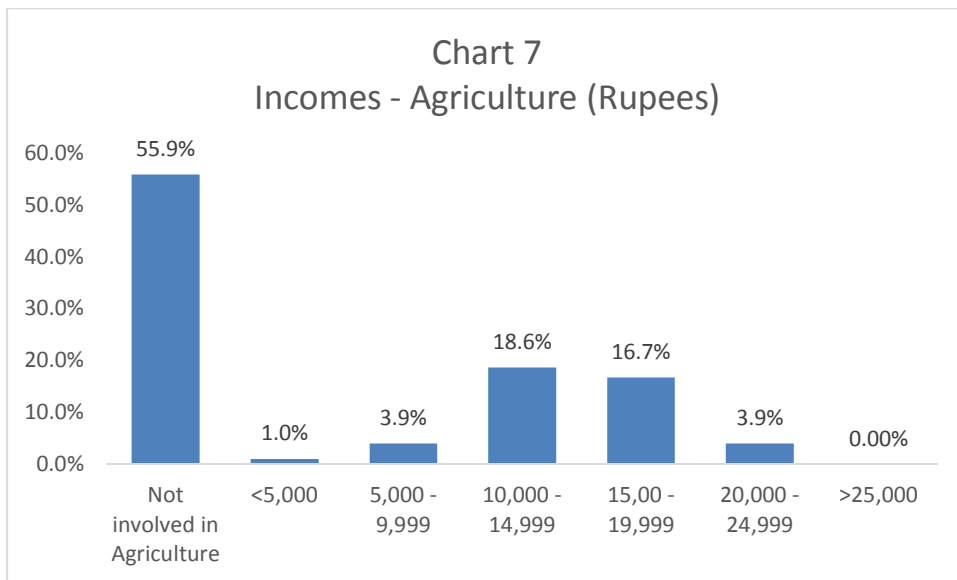




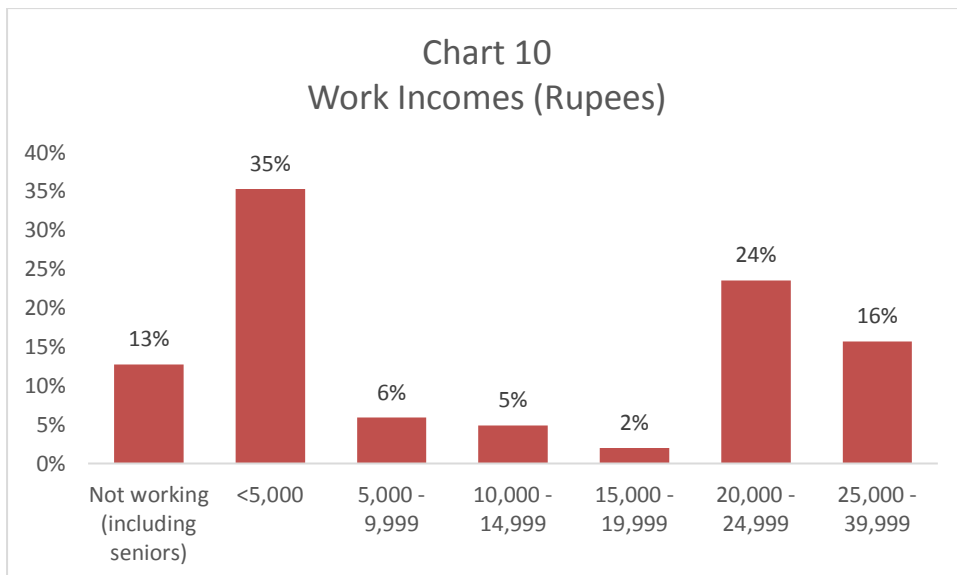
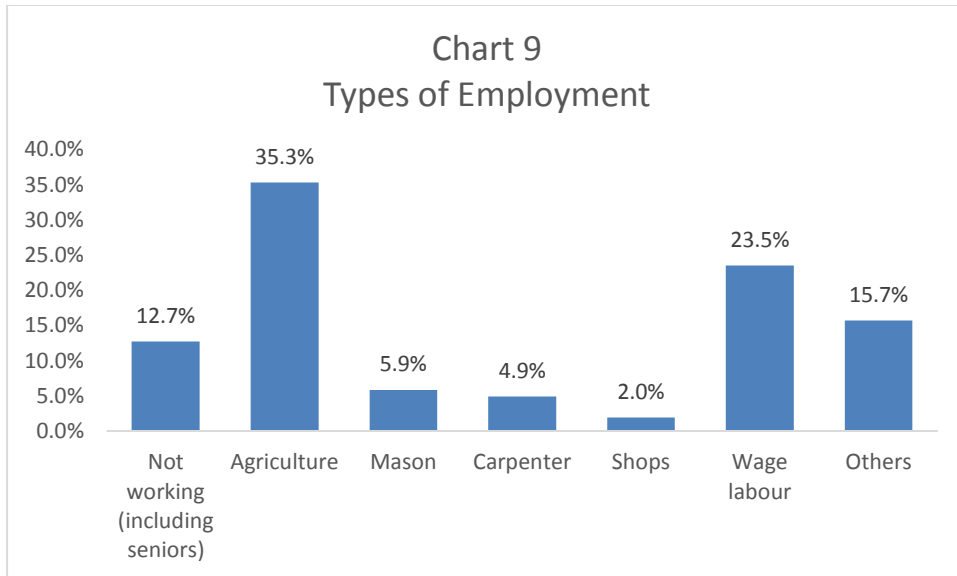
Agricultural land is an important asset in Jaffna and the plots are very small. However, given that this survey was mainly carried out in the oppressed caste quarters, there is only a limited number of plots and even smaller in size. In this context the extent of agricultural land ownership is considered here. Agricultural land for cash crops in Jaffna is measured by crops. The minimal plot is 1,000 crops. And 1,000 crops requires 3.5 lachams of land. One acre of highland is equal to 16 lachams.



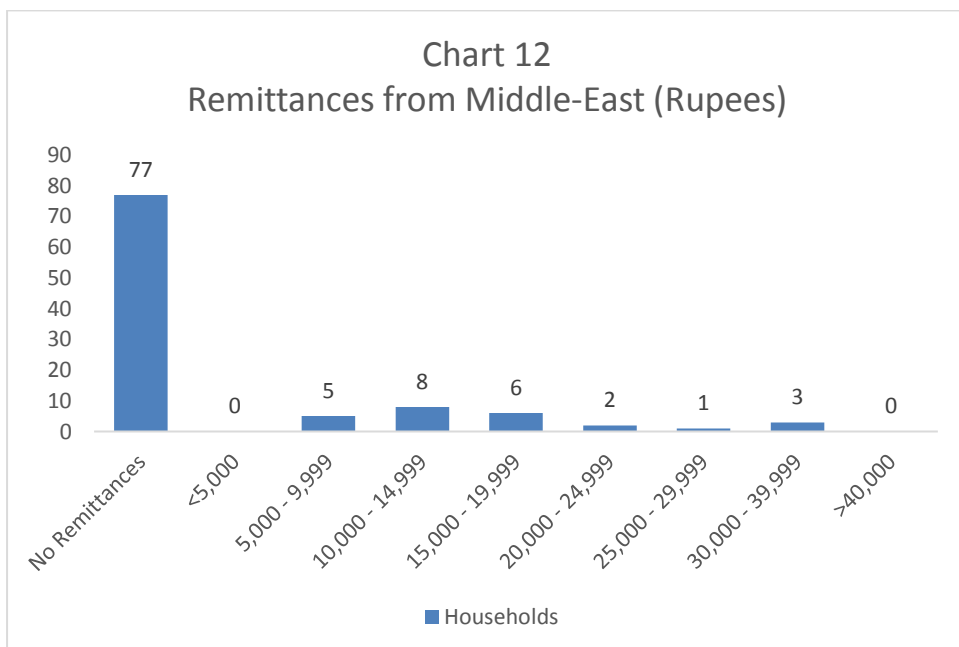
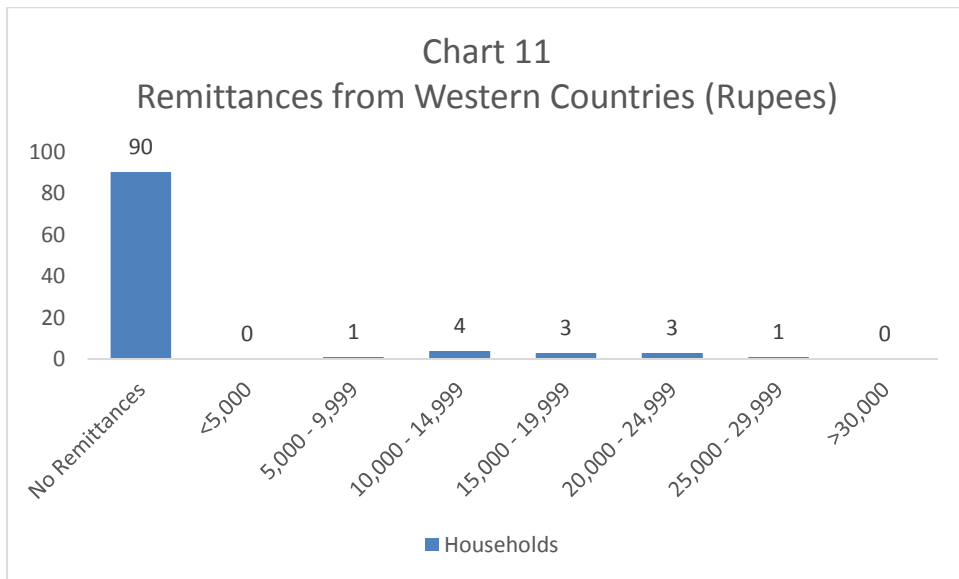
Incomes from agriculture refers to those who cultivate their own fields or are sharecropping. It does include wage labour.



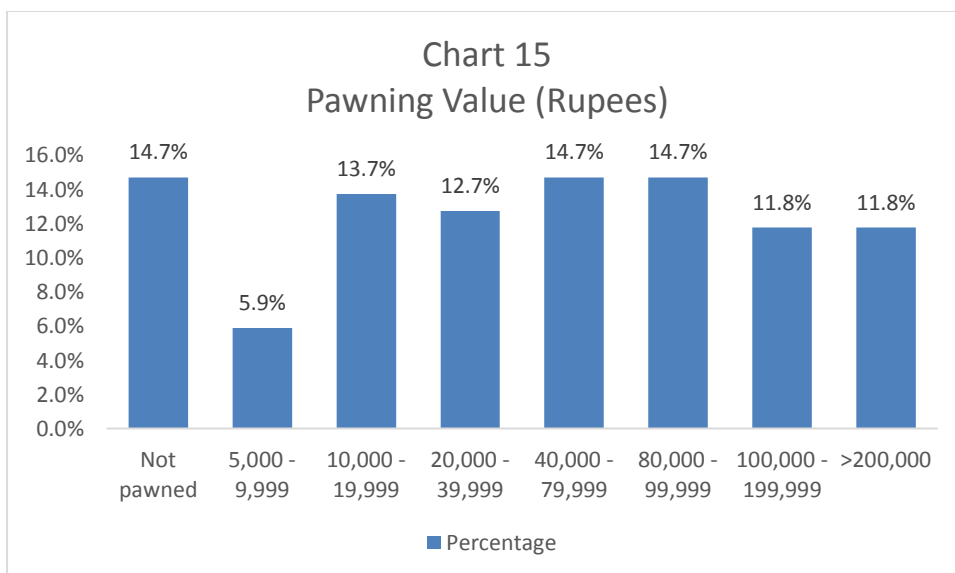
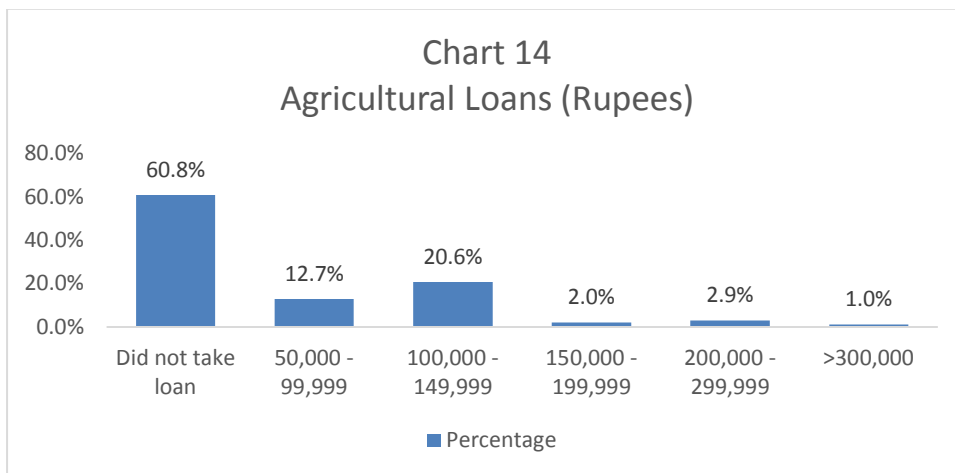
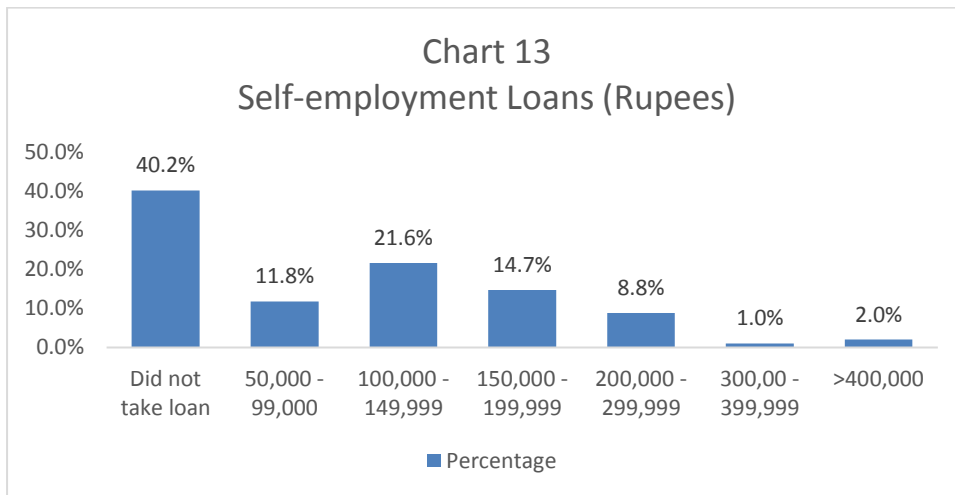
When looking at types of work, masons do not account for entire section of the population involved in agriculture. Masons here refers to skilled masons only. Wage work can be both agricultural labour as well as wage labour going for construction. The category others can include those involved in construction such as road building.

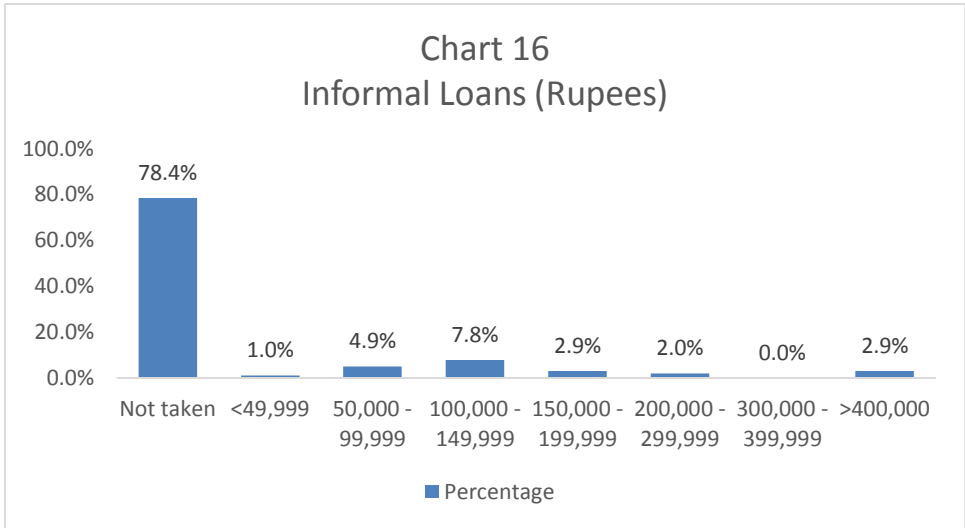


Remittances from Western Countries are mainly from those members of the family who have permanently migrated to the West. Some of those migrants may have left a couple decades ago. Remittances from Middle-East refers to those more recent migrants who have gone there mainly to send remittances to support their families. In recent years there has been a drastic increase in migrant labour to the Middle East.

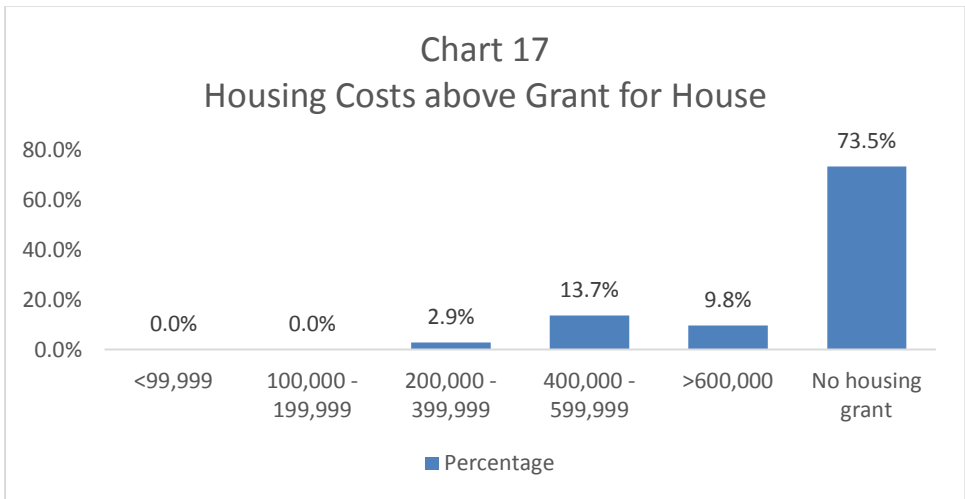


Self employment loans are the recent loan scheme by banks. Agricultural loans have been around from the 1970s and most of those who cultivate tend to take the agricultural loans. Informal loans can be loans from local money lenders, relatives and friends.





There have been a few housing grant schemes from the World Bank (Rs. 325,000), Indian Government (Rs. 550,000) etc. However, due to higher costs of house building than the grant, there has been the rise in indebtedness.



**Table 1**  
**Census of Population 1871 - 2012**

*Population in Thousands*

| Year | Male  | Female | Total |
|------|-------|--------|-------|
| 1871 | 122.5 | 123.6  | 246.1 |
| 1881 | 131.5 | 134.1  | 265.6 |
| 1891 | 137.6 | 141.7  | 279.3 |
| 1901 | 149.2 | 151.7  | 300.9 |
| 1911 | 159.7 | 167.5  | 327.2 |
| 1921 | 161.6 | 169.0  | 330.6 |
| 1946 | 212.2 | 212.6  | 424.8 |
| 1953 | 246.4 | 245.5  | 491.9 |
| 1963 | 307.9 | 304.7  | 612.6 |
| 1971 | 349.9 | 351.7  | 701.6 |
| 1981 | 412.7 | 417.9  | 830.6 |
| 2012 | 275.5 | 307.8  | 583.4 |

*Source: Statistical Hand Book 2013 Jaffna District, Page 58*