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Ryan P. Anderson

University of Nebraska-Lincoln, ryan.anderson@huskers.unl.edu

E. Wesley F. Peterson

University of Nebraska-Lincoln, epeterson1@unl.edu

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CORNHUSKER ECONOMICS

Property Rights in Post-Conflict Sri Lanka

This is the third and final article in a series on property rights. In the previous two articles we saw how conflicts often emerge during the transition from one set of legal or social institutions to another. In this article we consider how such challenges helped spark a prolonged civil war in Sri Lanka, and how they might finally be resolved now that peace has been realized.

The seeds of Sri Lanka's recent conflict were sown by British colonial governments in the early 19th century. Unlike their Dutch and Portuguese predecessors the British were not content to merely control the island's main ports, and launched a campaign of conquest against the indigenous Kandyan Kingdom. In place of the Kandyan system of land tenure, which stressed intergenerational equity and collective labor for the maintenance of public works, the British established a highly expropriative system designed to redistribute land from peasant farmers to wealthy plantation owners. Public grazing lands and undeveloped jungle were claimed by the crown and granted freely to wealthy natives and British nationals. Farmers were routinely compelled to prove title to their land under threat of eviction. Traditional taxes on agricultural production were increased dramatically, with those who failed to pay forced to surrender their land.

Even those smallholder farms that remained intact suffered under the new legal system. Draught animal populations were devastated by the loss of grazing land, while massive deforestation severely impacted the quality of both water and soil. A growing number of landless and impoverished farm workers threatened political instability, which forced the government to establish a new system of land grants designed to encourage settlement in the vast Dry Zone of the North and the East. Unfortunately, this system succeeded

Market Report	Yr Ago	4 Wks Ago	6/24/11
<u>Livestock and Products,</u>			
<u>Weekly Average</u>			
Nebraska Slaughter Steers, 35-65% Choice, Live Weight.	\$91.23	\$106.04	\$112.37
Nebraska Feeder Steers, Med. & Large Frame, 550-600 lb.	135.88	147.50	149.00
Nebraska Feeder Steers, Med. & Large Frame 750-800 lb.	117.50	122.73	136.25
Choice Boxed Beef, 600-750 lb. Carcass.	154.50	178.18	177.16
Western Corn Belt Base Hog Price Carcass, Negotiated.	77.56	94.13	99.47
Pork Carcass Cutout, 185 lb. Carcass, 51-52% Lean.	84.08	91.78	97.70
Slaughter Lambs, Ch. & Pr., Heavy, Wooled, South Dakota, Direct.	130.75	189.25	*
National Carcass Lamb Cutout, FOB.	312.37	404.11	402.81
<u>Crops,</u>			
<u>Daily Spot Prices</u>			
Wheat, No. 1, H.W. Imperial, bu.	3.39	8.29	6.43
Corn, No. 2, Yellow Omaha, bu.	3.26	7.57	6.62
Soybeans, No. 1, Yellow Omaha, bu.	9.59	13.90	13.36
Grain Sorghum, No. 2, Yellow Dorchester, cwt.	5.14	12.04	10.54
Oats, No. 2, Heavy Minneapolis, MN, bu.	2.65	3.83	3.45
<u>Feed</u>			
Alfalfa, Large Square Bales, Good to Premium, RFV 160-185 Northeast Nebraska, ton.	150.00	140.00	185.00
Alfalfa, Large Rounds, Good Platte Valley, ton.	82.50	87.50	135.00
Grass Hay, Large Rounds, Good Nebraska, ton.	*	*	72.50
Dried Distillers Grains, 10% Moisture, Nebraska Average.	92.50	219.00	197.00
Wet Distillers Grains, 65-70% Moisture, Nebraska Average.	32.00	80.50	70.00
*No Market			

only at the cost of increasing that region's population density, far beyond what traditional irrigation systems could support.

Independence in 1948 affected the politics of expropriation, but not its primacy in economic life. The critical divisions in Sri Lankan society quickly moved from class to ethnicity, as the two major parties competed for the favor of the ethnic Sinhalese majority. The United National Party (UNP) promised *laissez faire* and low taxes, with the Sri Lankan Freedom Party (SLFP) promising state promotion of industry. But neither party promised much of anything to the ethnic Tamil communities occupying the Dry Zone perimeter.

In 1972 the SLFP passed a sweeping land reform that capped individual ownership at 50 acres, and seized massive amounts of land from the plantation sector. By 1975, the government controlled 22 percent of the island's arable land, most of which it promised to redistribute back to the peasants. Brule (2006), investigated these efforts and determined that they were overseen by "patronage machines" and showed a remarkable bias towards influential Sinhalese. Ultimately, only 12 percent of the land grants were made to the genuinely landless, and of these very few were awarded to Tamils.

After regaining power in 1977, the UNP countered with a program of Dry Zone resettlement that demonstrated the same pattern of ethnic bias in land grants. These efforts were fiercely opposed by Tamil leaders who saw Sinhalese colonization of the Dry Zone as a confiscation of their homeland. These objections found no home in either major party. While it might be imagined that a competitive democracy would offer some protection from the worst abuses of state power, in Sri Lanka it seemed only to fuel the flames of racial animosity.

In 1983 these passions erupted into civil war. Over the next 26 years this conflict would claim the lives of nearly 70,000 people and maim more than 100,000. It would also prove devastating to the economy of the conflict region.

Citizens living under the control of the rebel Liberation Tigers of Tamil Eelam (LTTE) were subject to widespread extortion and theft. Illegal taxes were levied on business transactions and public servant salaries. Houses and public buildings were captured for use as barracks. Muslims were left particularly vulnerable, as the LTTE evicted all Muslims from the city of Jaffna and seized many Muslim-owned farms elsewhere.

Consistent with economic theory, this collapse in personal and property security resulted in a massive decrease in investment. Unable to secure the rewards of their labor, citizens in the conflict region stopped building for the future and started focusing on short-term survival. In the Batticaloa District, where fighting was particularly fierce, the total number of economic enterprises declined from 2,485 to 2,018 during the first two decades of war, while savings rates turned sharply negative, finally reaching -14.3 percent in 2004.

The LTTE's defeat in 2009 signaled the end of hostilities, but not of property rights uncertainty in the conflict area. Thousands of families were displaced during the conflict and continue to face considerable challenges in reclaiming their old lives. While fleeing violence and natural disaster, these families abandoned not only their homes and farmland, but also valuable assets such as farming and fishing equipment. Many also lost the deed to their property, and with it their right to enjoy government agricultural supports. Local government offices are often unable to produce timely duplicates.

Critically, many of these families are likely to experience difficulty in obtaining credit. A survey by Amirthalingam and Lakshman (2009), determined that many internally displaced families financed their period of displacement by selling jewelry. This is troubling, because jewelry has become a foundational element of the Sri Lankan financial system, as evidenced by a survey conducted last summer of 51 paddy farmers in Batticaloa District. It found that 19 had used jewelry as collateral for a loan in the most recent growing season, nearly three times as many as had used their land.

This widespread reliance on alternative sources of collateral reflects a longstanding weakness in property rights policy. Nearly 70 percent of smallholder farms still operate under grants from the National Land Development Ordinance. LDO permit holders are prohibited from selling their land, and can only use their permits as collateral at an approved lender. Such lenders are typically rare in rural areas.

With the end of hostilities signaling a new beginning for Sri Lanka's economic development, it may be prudent to hasten existing efforts to privatize LDO land. Complementary efforts to rebuild damaged infrastructure and improve the service of local administrative offices could go a long way towards rehabilitating the conflict area. However, policymakers must remain mindful of Sri Lanka's troubled history, and work to ensure that property law does not once again become a battleground for ethnic politics.

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Ryan P. Anderson, Undergraduate Student
Department of Agricultural Economics
University of Nebraska-Lincoln
ryan.anderson@huskers.unl.edu

E. Wesley F. Peterson, (402) 472-7871
Professor, Department of Agricultural Economics
University of Nebraska-Lincoln
epeterson1@unl.edu

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