

VIII

THE ECONOMY OF SRI LANKA 1948-73*

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I. MAJOR DEVELOPMENTS OF THE PERIOD

Three major developments characterising this period, which influenced the performance of the economy to a remarkable degree were: the rapid population growth; the foreign exchange crisis; and, the increasing role of the government in the economy.

(a) Population Growth

During the period under review, Sri Lanka's population increased rapidly. So much so, that the country has been described as the "example par excellence of... population explosion".¹ The population almost doubled from 6.6 million in 1946 to 12.7 million in 1971, growing at an annual average rate of 2.3 per cent.² This population upsurge has been due to the juxtaposition of a "primitive birth rate with a modernised death rate".³ The crude death rate, halved from 21.5 per thousand in 1945 to 10.7 per thousand in 1953 due largely to a successful anti-malaria campaign, continued to decline further during the rest of the period reaching 7.6 per thousand in 1971, because of the improvement and countrywide diffusion of health services.⁴ The birth rate which was 39.7 per thousand in 1947, had declined to 30.0 per thousand in 1971.⁵ The slower decline of the latter led to a widening gap between the two rates and a consequent high growth rate of population.

* I am grateful to Mr. N. Balakrishnan for his comments on an earlier draft of this paper. The responsibility for any errors that may remain is, however, entirely mine.

1. Gavin W. Jones and S. Selvaratnam, *Population Growth and Economic Development of Ceylon*. p. 20, (Colombo, Hansa Publishers, 1971).
2. Department of Census and Statistics, *Statistical Pocket Book of the Republic of Sri Lanka*. Colombo, 1973.
3. Mrs. Joan Robinson, "Economic possibilities of Ceylon" *Papers by Visiting Economists*. Colombo, Planning Secretariat, 1959, p. 39.
4. *Administration Report of the Registrar General*. Colombo, 1965; Department of Census and Statistics. *The Pocket Book*, *op. cit.*
5. Since early 1960s however, the crude birth rate has declined faster, dropping from 35 per thousand in 1961-63 to 29.6 per thousand in 1970-72. The main reasons for this have been the continuation of an earlier trend of the postponement of marriage, and the decline in marital fertility among women over 25 years. There has been a certain amount of family planning activity in Sri Lanka during this period, carried out earlier by a private voluntary association and since 1965 by the government. It is difficult, however, to say exactly to what extent these activities have been responsible for the drop in the crude birth rate (*vide*, U.N.-UNESCO-WHO, *Family Planning Evaluation Mission to Ceylon* 1971).

A major outcome of the demographic trends of this period was the large scale additions to the population of young dependents in the age group of 0-15 years. Their proportion in the population rose from 37 per cent in 1946 to 42 per cent in 1963 and was 39 per cent in 1971. This situation resulted in a high dependency burden to the economy which, in turn, led to a severe curtailment of the economy's ability to improve the average living standards of the population and divert resources to increasing its productive capacity. The adverse impact of the demographic pressures of these years was also felt in the sphere of government fiscal operations and balance of payments because of the government's commitment to a policy of large scale social welfare expenditures disbursed mainly on a per capita basis and because of the economy's heavy dependence on imports for most of its essential consumer goods.⁶ The strain on the economy due to fast population growth was particularly strong because of the spread of the "revolution of rising expectations" and the sluggishness of the economy.

One of the major problems causing increasing and serious national concern which emerged during this period was unemployment.⁷ "The emergence of chronic large-scale unemployment was due to the contrast between the fast growth of population and the inertia of the economy in the face of adverse trends in the world market".⁸ As the years went by, increasing numbers were added to the country's labour force when the delayed effects of the high birth rates in the past began to work themselves out. The average annual addition to the labour force which was around 54,000 in the period 1946-53 had increased to about 110,000 in the period 1963-71.⁹ The economy's employment opportunities however, did not expand sufficiently to provide full employment, as seen from the high rates of unemployment recorded by various estimates. According to the I.L.O. Survey of 1959, the unemployment rate ranged between a 'low' estimate of 10.5 per cent of the labour force or 340,000 persons and a 'high' estimate of 12.8 per cent of the labour force or 450,000 persons.¹⁰ Nine years later, the Labour Force Survey of 1968 estimated unemployment as 450,000 persons or 11.0 per cent of the

6. For a discussion of these implications and of the possible gains from lower population growth rates *vide* Jones and Selvaratnam *op.cit.*
7. The country has been aware of the existence of a serious unemployment problem since the late fifties. The *Ten Year Plan* (1959-68) was prepared from the point of view of providing employment to growing numbers. Solving the unemployment problem was one of the major targets of the *Five Year Plan* (1972-76), and was the subject of study by two major international organisations in recent years (*vide* Peter J. Richards *Employment and Unemployment in Ceylon* (Paris OECD 1971), and ILO, *Matching Employment Opportunities and Expectations: A Programme of Action for Ceylon*. 2 vols. (Geneva 1971).
8. ILO *Matching Employment . . . op. cit.*, p. 17.
9. S. Selvaratnam, "Impact of population Growth on Employment and Training in Sri Lanka" *Report of the National Management Seminar on Population and Family Planning* Colombo, 1972, p. 30.
10. ILO "A Survey of Unemployment and Underemployment in Ceylon" *International Labour Review* 38, March 1963, pp. 247-257.

labour force.¹¹ A higher figure of 546,000 persons or 14 per cent of the labour force was given by the Socio-Economic Survey of 1969/70 conducted by the Department of Census and Statistics.¹² More recently, a still higher estimate 743,000 or 18·1 per cent of the labour force has been given by the Labour Force Participation Survey (1973) of the Central Bank of Ceylon.¹³ Although at first sight these figures seem to indicate a significant increase in the *rate* of unemployment, they must be interpreted carefully. The estimates, excepting two, are not strictly comparable, mainly because of different definitions given to the term unemployment. The two strictly comparable estimates—the ILO “low” estimate of 1959 and the Labour Force Survey of 1968—indicate only a small rise of the unemployment rate from 10·5 per cent to 11·0 per cent over the decade 1959-68.¹⁴ Perhaps in more recent years the rate may have increased faster due to the greater contrast between fast increasing labour force and the stagnating economy. At any rate, even if the unemployment rate did not increase rapidly but hovered around 10-11 per cent of the labour force, such a rate in itself can be considered as quite high by any reasonable standard.

A disturbing feature of Sri Lanka's unemployment problem during these years has been its heavy concentration among the young age groups. According to the Socio-Economic Survey of 1969/70, a proportion as high as 83 per cent of the total number unemployed belonged to the age category of 18-24 years. The rate of unemployment for this category was 35·6 per cent of its labour force, which was almost three times the rate for the country's labour force as a whole. Even more disturbing was the high rate of unemployment among the educated youth. As reported in the above survey, over 27 per cent of the total number unemployed had obtained the GCE ordinary level or higher educational qualifications, while another 45 per cent had received middle grade (about 8-9 years) schooling. The unemployment rate within each educational category of the labour force showed a tendency to be positively related to the level of education. Thus, for the no schooling and primary school categories, the unemployment rates were 8 per cent and 15 per cent respectively while for the middle school and G.C.E. ordinary level categories they were 39 per cent and 63 per cent respectively.¹⁵ Hence, in the words of the I.L.O. mission, “the more a young person had been educated, the greater the likelihood that he or she will be unemployed”¹⁶. The above figures may be deceptively high because of the delay before new entrants to the labour force get their first jobs and because of possible exaggeration of educational qualifications. It is quite likely however, that even after allowance is made for

11. As quoted in Jones and Selvaratnam, *op. cit.*, p. 174 (The Survey is unpublished).

12. Department of Census and Statistics: *Preliminary Report on the Socio-Economic Survey of Ceylon 1969-70*. (Colombo, 1971).

13. Central Bank of Ceylon, *The Determinants of Labour Force Participation Rates in Sri Lanka 1973*. Colombo, 1974. Other estimates of unemployment available for this period are: The Consumer Finance Surveys of 1963 (13·8%) and of 1973 (24%); Population Census of 1963 (8·0-10·8%) and the Rural Employment Survey of 1964 (12·5%).

14. According to Richards these figures cannot be “interpreted as showing a large increase in the rate of unemployment”. He showed that unemployment was rising only among two major groups—educated women and estate labour. (Richards *op. cit.*, p. 63).

15. ILO, *Matching Employment... op. cit.*, Table 8, p. 28.

16. *Ibid.*, p. 28.

such possibilities, the unemployment rates among the educated young age groups would remain high. This situation could partly be attributed to the scarcity of white-collar jobs. By 1970 there were "far too few white-collar jobs to satisfy those leaving school with qualifications which only a few years earlier would have obtained them this type of employment almost automatically".¹⁷

(b) The Foreign Exchange Crisis

A major constraint on the growth of Sri Lanka's economy during the last decade and a half has been the acute foreign exchange scarcity. Its effect on the economy has been cripplingly severe because of the economy's heavy dependence on imports for most of its capital goods, raw materials, and essential consumer goods. In the period 1972-73, despite stringent import controls, the ratio of imports to the GNP was 18 per cent. Almost half the imports consisted of essential food items while 44 per cent consisted of raw materials and capital goods. The latter's ratio to the total gross domestic capital formation in these years was 44 per cent.¹⁸ Although this kind of heavy dependence on imports was true of the economy even in the early years of the period under review, no serious problem was faced on account of it because the country's commodity terms of trade was better, population pressure less severe, and the import requirements for industrial purposes more limited. Since the early sixties however, due to a chronic scarcity of foreign exchange, the economy has been starved of essential imports resulting in a fall in the living standards of the people and in the tempo of economic activity.

From 1957 through 1970 there has been a basic deficit in the balance of payments except for a small surplus in 1965. The surpluses witnessed in the years after 1970 have been achieved by means of severe import and exchange controls and, as such, do not reflect an improvement in the underlying basic disequilibrium.

The main factor behind this state of imbalance has been an adverse trade balance. What occurred in this respect may be seen from Table 1.

Since the mid-fifties, the merchandise export income has not shown any increasing trend. At best it has been constant. This situation has obviously been due to a decline in export prices because the export quantity has shown a tendency to increase. On the other hand, the value of imports has increased in the first half of this period and thereafter tended to remain at a high level. Table 1 shows that the rise in the import value in the first half of this period has been due to an increase in the quantity of imports while in the later years it has remained high because of escalating prices. Thus the trade balance in the sixties and afterwards has been mainly due to a significant deterioration of the country's terms of trade. The commodity terms of trade index declined from 144 in the years 1957-60 to 81 in the period 1969-72. The export earnings were badly

17. *Ibid.*, p. 16. Note however, the following observation made by Richards (*op. cit.*, pp. 13-14) "Unemployment is heavily concentrated in the young age groups. Nevertheless, the picture of the open unemployed as wanting white-collar jobs is wide off the mark as many of the open unemployed are not particularly well educated and have no unreasonable job ambitions".

18. Central Bank of Ceylon: *Annual Report 1973*.

hit by the fall in the prices of tea and rubber—the two commodities which together contributed about 70 per cent of the merchandise export earnings of this period. The average f.o.b. price of a pound of tea dropped from 63 to 41 SDR cents in the period 1954-58 to 1969-73. Similarly, the price of a pound of rubber fell from 30 to 19 SDR cents over the same period.

TABLE I
Value, quantity and price of merchandise exports and imports 1949-72

Period	Exports			Imports			Terms of Trade
	Value (million SDR)(a)	Quantity Index	Price Index(b)	Value (million SDR)(a)	Quantity Index	Price Index(b)	
1949-52 ..	322	74	117	286	86	82	144
1953-56 ..	370	82	126	320	97	86	147
1957-60 ..	364	83	121	393	126	86	144
1961-64 ..	375	96	110	359	106	87	128
1965-68 ..	364	101	109	365	101	106	103
1969-72 ..	317	99	117	380	97	146	81

Source: Central Bank of Ceylon, *Annual Reports*.

- (a) Since the par value of the US Dollar has changed in recent years, these values are expressed in terms of the SDR units of the IMF.
- (b) These indices have been prepared in terms of Rupee prices. Hence the indices may somewhat overestimate the level of prices after the devaluation of the Rupee in November 1967.

The government has tried to overcome the balance of payments disequilibrium by various ways. Import and exchange controls were imposed and have existed for the past decade and a half. Through these controls the use of foreign exchange has been restricted to the import of most essential goods and services. In the absence of an inflow of private long term capital, the government has made use of foreign assistance mainly in the form of long term and short term loans. These loans, however, have resulted in a growing burden of debt servicing. Interest and repayment arising out of both long term and short term loans have increased significantly from a mere Rs. 33 million or 1.6 per cent of all foreign exchange earnings in 1961 to a staggering Rs. 1157 million or 41 per cent of all foreign exchange earnings in 1973.¹⁹

The government has continued to resist the repeated demands from the IMF for a general devaluation of the rupee as a corrective measure, for fear of a fall in the living standards of the low income groups.²⁰ There has however, been a partial devaluation. This came as a result of the dual exchange rate system introduced in May 1968, and continued to date. Under this arrangement, an exchange rate with a premium (of 65 per cent now) is adopted for certain imports not directly connected to the

19. Central Bank of Ceylon: *Annual Reports*.

20. Although there was a devaluation in November 1967 it was prompted more by the United Kingdom's devaluation of the pound sterling at that time than by a desire to correct Sri Lanka's balance of payments disequilibrium, because United Kingdom was Sri Lanka's most important trading partner.

consumption pattern of the masses and for certain "non-traditional" exports while the lower official exchange rate is adopted for all other exports and imports.²¹

While it is true that the foreign exchange crisis has been due, largely, to a deterioration of the country's commodity terms of trade, it has also partly been due to the lack of far sighted policies aimed at making the economy more resilient to such exigencies. For example, the better opportunities in the early fifties were not used for the purpose of diversifying Sri Lanka's exports. Even the industrial development that has been taking place in the last decade or so has not been properly planned to make it export oriented and less import intensive. Consequently, after a quarter century of independence, the country's export base has hardly changed from what it was in 1948—the heavy concentration on the three primary commodities of tea, rubber and coconut. In 1948-49 these three items contributed 90 per cent of merchandise export earnings. In 1971-72 the proportion was almost the same.²²

(c) The Role of the Government

During the quarter century under review, the size of the government sector and its control and influence over the ownership, allocation, and distribution of resources in the economy increased considerably.²³ This increasing role came to be exercised not only through an ever expanding budget but also through the ownership and operation of economic enterprises, direct controls, and economic planning.

A crude measure of the size of the government sector in the economy is the ratio of government expenditure to the GNP. This ratio increased from 21 per cent in 1947-48 to 34 per cent in 1970-71. In absolute terms, the government expenditure increased nearly sevenfold from Rs. 593 million to Rs. 3,975 million and on a per capita basis from Rs. 85 to Rs. 311.²⁴

This rapid expansion was due mainly to the current expenditures which increased from Rs. 433 million to Rs. 3,095 million over this period resulting also in a rise in their share of total expenditures from 73 per cent to 78 per cent. Capital expenditures rose from Rs. 157 million to Rs. 800 million but their proportion in the total fell from 26 to 20 per cent.²⁵ Most of the current expenditures of this period went into social

21. W. M. Tilekaratne: "How the FEEC Scheme came to be Introduced". *Research and Industry*, (Colombo, Industrial Development Board, 1970); Dayapala Wijewardana: "The Problem of a Multiple Currency System in a Developing Economy with special reference to Sri Lanka" *Staff Studies*, Vol. 3, No. 1, April 1973. Colombo, Central Bank of Ceylon.

22. In 1973 there was a significant change. The share of these products in total merchandise exports fell to 79 per cent due to a sharp increase in minor exports—particularly of gems and to a lesser extent due to a fall in coconut exports. The increase in gem exports has been due to the special incentives given by the State to such trade. The export of other "non-traditional" items has also been given such encouragement lately. Nevertheless, it is too early to say whether a definite breakthrough has been made in the diversification of Sri Lanka's exports.

23. The term "government" here means only the central government and hence excludes local government.

24. Central Bank of Ceylon: *Annual Reports*.

25. Central Bank of Ceylon: *op. cit.*

services and transfers to the private households. Thus, social services—consisting mainly of free education and free health services to the public, and transfers excluding interest on public debt—came to 55-63 per cent while social services and food subsidies alone came to 45-52 per cent of current expenditure.²⁶ Since most of these measures were provided on a per capita basis, rapid population growth of this period resulted in a substantial rise in the level of these expenditures.

The heavy emphasis of government expenditures on social welfare has been the outcome of strong socio-political pressures. In the context of a system where the political decision making process consisted of a Parliamentary democracy based on universal adult suffrage and where the mass of the voters lived on the verge of poverty²⁷ and trade unions were strong, it was inevitable that the political parties seeking to win or retain political power came to stress policies of this nature.²⁸

Mounting current expenditures not only prevented the government from devoting more of its available resources into immediately productive investment but also resulted in inflationary budgets.²⁹ This was because of the lag in government revenue in the face of the government's commitment to expand expenditures. While government expenditure rose sevenfold from Rs. 593 million to Rs. 3,975 million, government revenue increased only fivefold from Rs. 601 million to Rs. 2,815 million over the above period, resulting in persistent and ever widening budget deficits.³⁰ The deficit which was Rs. 222 million or 15 per cent of total expenditure in 1957-58 had increased to Rs. 936 million or 27 per cent of expenditure in 1970-71. Since these deficits were financial largely by borrowing from the banking system, particularly, from the Central Bank, they led to an increase in the country's money supply. In the early years of liberal import policy with little or no import restrictions, this expansionary policy led to the draining away the country's foreign assets. Since early sixties however, when stringent

26. *Ibid.*

27. On the basis of "two arbitrary 'poverty lines' of annual per capita incomes of U.S. \$50 and US \$ 75 (in 1971 prices) 33.0 per cent and 63.5 per cent respectively of Sri Lanka's population lived under poverty conditions in 1969. (Montek S. Ahluwalia, "Income Inequality: Some Dimensions of the Problem" *Finance and Development* Vol. II, No. 31 September 1974, p. 5, IMF and World Bank Group, Washington D.C.

28. See Donald R. Snodgrass, *Ceylon: An Export Economy in Transition* (Homewood, Illinois, Richard D. Irwin Inc., 1966). Marga Institute, *Welfare and Growth* (Colombo, 1974).

29. "Unwilling or unable for political reasons to cut welfare expenditures including those designed to hold down the price of food—any attempt to cut the subsidized rice ration would invite political disturbances and electoral defeat—the government continued, in effect, to pump money into the economy" Gunnar Myrdal, *Asian Drama: An Inquiry into the Poverty of Nations*, 3 vols. (New York, Pantheon, 1968), Vol. I, p. 356.

30. The composition of government revenue changed significantly during these years, particularly after 1960. Due to import restrictions and falling export prices, customs duties which contributed over half the revenue in the fifties declined in relative importance. Their contribution was around 30 per cent in the 1970-71 fiscal year. The share of domestic indirect taxes had increased from a mere 6 per cent in 1948-49 to 24 per cent in 1971-72 mainly due to the Turnover Tax introduced in the early sixties. Non-tax revenue also had increased from 22 to 25 per cent over these years. The share of direct taxes however, remained more or less constant around 16 per cent. Although these taxes seem to have increased more or less at the same rate with the GNP, there was a case for higher taxes on wealth and "nonearned" incomes in view of increasing domestic industrial activity and inflation.

import controls came into being, its impact has been mainly one of domestic inflation. The Colombo Consumers' Cost of Living Index (1952=100) registered an increase from 103.5 in 1960 to 165.4 in 1973.³¹

The government's role in the economy increased far beyond what is indicated by the crude measure of the ratio of its expenditure to the GNP. For example, the ratio partially excludes the expenditures of the commercial enterprises undertaken by the government in increasing numbers during this period through the medium of Public Corporations. These activities resulted either from the nationalisation of existing private enterprises or from entirely new ventures. Under the United National Party government which held power in the early years of independence, direct participation by the government in commercial activities was kept to a minimum in accordance with its heavy bias towards private enterprise. Since 1956 however, there has been a radical change. The voting into power of the People's United Front led by S. W. R. D. Bandaranaike this year marked the beginning of a trend under which the less privileged classes of the society were able to have an increased influence over government policies.³² Hence the government has played an increasingly interventionist role in the economy since this year. Soon after assuming power, it nationalised the country's bus transport service and the Colombo harbour. It also started several new government industrial enterprises to produce items such as sugar, plywood, leather products, caustic soda and chlorine, cotton yarn, ilmenite, bricks, tiles, and hardboard. This trend was continued further under the regimes of Mrs. Sirimavo Bandaranaike (1960-64 and 1970—). In the early sixties her government nationalised insurance and banking businesses, and the distribution of petroleum. More government Corporations were launched to undertake a wide variety of activities pertaining to the production and distribution of goods and services, to the financing of such activities and also related to the export-import trade. Over the period 1956-73 the number of government Corporations increased to 84. The total capital invested in these corporations stood at Rs. 5,624 million in 1973.

Another dimension in which the government influence over the economy increased were the regulatory measures, which had a significant impact on the economy. Among these measures there were, firstly, those relating to the distribution of goods and services. In order to ensure a fair distribution of essential commodities which became increasingly scarce over these years the government adopted a policy of rationing by regulation in place of the free market mechanism. For example, when the country was hit by an acute shortage of foreign exchange in the late fifties, strict import and exchange controls were imposed and exchange came to be rationed for essential

31. This index, however, grossly underestimates the extent of inflation that prevailed in the economy, because of several major weaknesses built into it. Most notably, it covers only the Colombo working class group of consumers. Even here, some of the major items of expenditure are subsidised by the government. Moreover, its weights have not been revised to take account of possible changes in recent years.

32. For a discussion of the Socio-political forces at work behind the economic scene during these years see: Myrdal, *op. cit.*, Vol. I, pp. 343-360; Marga Institute, *op. cit.*, sections 1-3.

purposes on the basis of a system of licensing.³³ On the domestic front, the distribution of imports and essential goods domestically-produced came to be entrusted to co-operatives and authorised dealers. There have been problems of smuggling, foreign exchange frauds, black marketeering and corruption usually associated with such controls. Nevertheless, in the context of overall scarcities and poverty of the majority of the people, these regulations have benefited large sections of the society. Secondly in pursuance of the policy of greater equality in the distribution of income and wealth, the earlier policy of socialisation of the means of production was supplemented by other measures in recent years. The Land Reform Law of 1972 for example, sought to restrict individual ownership of land by fixing a ceiling of 25 acres for paddy land and 50 acres for highland. Under this Act the government has acquired 559,377 acres of privately held land and given a part of it over to landless individuals, collective and co-operative farms and to the State Plantations Corporation.³⁴ No systematic scheme has however, been devised to ensure efficient long term development of the acquired land. This measure, despite its limitations, has fulfilled to some extent the long standing need for land reforms in Sri Lanka. Although an attempt was made in this direction in 1958 by the enactment of the Paddy Lands Bill, its purpose was limited to the fixing of maximum land rent payable by tenant farmers and to granting greater security of tenure to such farmers.³⁵ Another measure falling into the area of redistribution of income and wealth was the ceiling on House Property Law of 1973 which limited the maximum number of houses an individual could own to two, and made provision for surplus houses to be purchased by tenants while the Rent Act of the same year brought all houses under rent control with substantial reductions in rent. In 1972 the government introduced a ceiling of Rs. 24,000 per year on individual disposable income, requiring the excess income to be contributed to a compulsory savings fund.³⁶ A capital levy was also introduced in 1972.

While for the most part government participation in economic activities took place in a variety of haphazard ways, some attempt was also made at economic planning.³⁷ With an increasing realisation of the need for planned economic development, there was an increasing progress made in the machinery of planning. Independent government in Sri Lanka started with hardly any administrative machinery specially set up for such activity. By the early sixties however, a Department of Economic Planning had been set up. In 1965 a separate Ministry of Planning and Economic Affairs with separate departments in charge of Foreign Aid and Plan Implementation, was set

33. Central Bank of Ceylon: *Annual Reports*; J. G. G. Motha: *The Impact of Import Policies on the Economy of Ceylon* (Unpublished) Ph.D. dissertation, Stanford, 1971, gives a detailed account of the working of these controls.

34. Agrarian Research and Training Institute: *New Settlement Schemes in Sri Lanka* (Colombo, 1974), p. 155.

35. This Act was amended in 1974 to include tenancy on highlands too under its purview.

36. This income ceiling has since then been raised to Rs. 30,000 per year with effect from 1975.

37. An exhaustive study of Sri Lanka's planning efforts, especially from the point of view of employment, is found in Birgen Moller: *Employment Approaches to Economic Planning in Developing Countries with Special Reference to Development Planning of Ceylon (Sri Lanka)*. Scandinavian Institute of Asian Studies Monograph Series No. 9, Stockholm 1972.

up under the direct supervision of the Prime Minister himself. A Cabinet Co-Ordinating Committee on Economic Questions was also formed at this time. In the early seventies, regional planning offices were also set up and the Department of Plan Implementation was raised to the status of a separate Ministry. In the late sixties, the Ministry of Planning began a system of project evaluation and also prepared, for the first time, an input output table for the economy.

The actual achievements of planning were however, quite modest. The *Ten Year Plan (1959-68)*³⁸ which was the first planning document of a serious nature prepared in Sri Lanka, was never implemented, due to political turmoil following the assassination of S. W. R. D. Bandaranaike. The Three Year Implementation Programme (1962-64)³⁹ drawn up by the government of Mrs. Bandaranaike too could not be fully implemented because the Parliament was dissolved in 1964 following the government's loss of a vote of no confidence. During the second regime of the United National Party (1965-70), the emphasis was on the implementation of selective programmes in a few strategic areas of the economy rather than on a long term plan.⁴⁰ The cornerstone of this government's development strategy was its Food Drive, launched for the purpose of making Sri Lanka self-sufficient in rice and subsidiary foods. This emphasis was due not only to the UNP's traditional preference for agriculture over industry but also due to the acute scarcity of food in these years and because of the possibility of finding a partial solution to the acute foreign exchange scarcity through import substitution in food. Statistical data indicate a marked increase in the output of rice, chillies, onions and potatoes.⁴¹ Nevertheless, the overall economic problems of the country continued to worsen. The government failed to realise its expectation to win the General Elections of 1970 on the strength of the success of the Food Drive.

A five year development plan (*The Five Year Plan, 1972-76*) was prepared and implemented by the United Front government led by Mrs. Bandaranaike which came into power in 1970.⁴² It was aimed at three main problems which were in urgent need of attention at this time, namely, the foreign exchange problem, large scale unemployment and poverty among the mass of the population. Hence its development strategy centred around peasant agriculture and agro-based industry. Other important aspects of the plan were, the diversification of exports, expansion of the tourist industry and the emphasis on labour intensive techniques of production. The plan's main targets were a growth rate of 6.0 per cent per annum and the reduction unemployment from 14 to 7 per cent.

38. National Planning Council: *The Ten Year Plan 1959*.

39. The Department of National Planning: *The Short-Term Implementation Programme, 1962*.

40. Moller: *op. cit.*, p. 238.

41. Gamani Corea "Economic Planning, The Green Revolution and the 'Food Drive' in Ceylon" in Wilfred L. David (ed) *Public Finance, Planning and Economic Development: Essays in Honour of Ursula Hicks*, (London & Basingstoke, McMillan, 1973) pp. 273-303

42. Ministry of Planning and Employment: *The Five Year Plan*, Colombo, 1971.

In the two years 1972-73 the actual performance of the economy fell short of the targets. The average growth rate was only 3.1 per cent.⁴³ A food crisis developed in 1973 and unemployment appeared to have increased. In fairness to the Plan, however, it must be pointed out that its successful implementation was thwarted *inter alia* by the crippling increase of import prices due to world market scarcities, currency realignments, and the fuel crisis of 1973. Import price index (1967=100) rose from 150 in 1971 to 209 in 1973.⁴⁴ Export earnings stagnated too. A move to reduce welfare expenditures to raise resources for the plan was rejected by the Government Parliamentary Group.⁴⁵

Looking back, the planning efforts of Sri Lanka seem to have failed due to several factors, mainly the lack of continuity of effort and the lack of a suitable machinery for plan implementation. Frequent changes in government and of high ranking personnel has led to the discontinuity of plans and programmes. The existing bureaucratic machinery created under the colonial regime for the purpose of centralising the country's political control, was clearly inadequate for the successful implementation of plans, because of its inefficiency, red tape and alienation from the common people.⁴⁶ Above all, there was no commitment by the nation as a whole to a given programme of economic development. Perhaps, in the plural society of Sri Lanka, the divisive elements of politics, creed, caste, and language may have been too powerful to bring about such a unity of purpose.

Although the domains of the public sector and the private sector were never clearly demarcated, planning activity accepted the basic framework of a mixed economy. Hence, even as the role of the government expanded, encouragement was given to the private sector through fiscal incentives such as generous capital allowances tax holidays and indefinite loss carry over benefits.⁴⁷ Foreign investment too was invited from time to time on the basis of certain terms and conditions. It is difficult to say however, to what extent these concessions were responsible for the expansion of the private sector. As pointed out by the Taxation Inquiry Commission of 1967, some of these concessions may even have been superfluous in view of the prevalent captive market due to import controls.⁴⁸ Further, it has been shown that the recent

43. Central Bank of Ceylon: *Annual Report* 1973.

44. *Ibid.*

45. In December 1974, the Five Year Plan came to be abandoned and replaced by a crash programme of investment.

46. In order to "transform the existing bureaucracy ridden administrative system into something better" and to achieve "an economic breakthrough in food production and ultimately in everything else too" a new administrative device known as the District Political Authority was set up in late 1973. Under this, in each of the 22 Administrative Districts of the island a District Political Authority was established with a member of the National State Assembly being appointed as its head. The Authority was given power to make and execute decisions related to government activity of the district, and a block sum of money was given to it by the central government for this purpose. (*Vide* the articles in the *Ceylon Observer Magazine Edition*, 2nd, 9th and 16th December 1973).

47. *Report of the Taxation Inquiry Commission*. Sessional Paper No. X—1968, Part II.

48. *Ibid.*, p. 47.

import substitution in industry in Sri Lanka has led to an undue concentration of wealth among a few families.⁴⁹ If at all, the private sector's role in the economy has been inadequate not so much due to the insufficiency of fiscal incentives as due to the uncertainty of its future in the economy and the economy's heavy bias towards present consumption vis-a-vis future consumption.

II. ECONOMIC GROWTH AND RESOURCE USE⁵⁰

(a) Growth

Sri Lanka's GNP at constant prices increased from Rs. 4,003 million to Rs. 6,269 million in the period 1950-60.⁵¹ This works out to an annual compound growth rate of 4.6 per cent. Allowing for a population growth rate of 2.7 per cent per annum, the per capita GNP increased at the rate of 1.9 per cent, per annum. It rose from 521 rupees to 633 rupees. Since the commodity terms of trade were in general favourable to the country, the real national income behaved more favourably. It increased from Rs. 4,510 million to Rs. 6,699 million and with it per capita national income rose from Rs. 587 to Rs. 677.

During the period 1961-73, the GNP at constant prices rose from Rs. 6,425 million to Rs. 10,383 million.⁵² This yields an annual compound growth rate of 4.1 per cent. Since the population growth rate for this period was 2.3 per cent per annum, GNP per capita increased at the rate of 1.8 per cent. The terms of trade however, were unfavourable to Sri Lanka in these years. Consequently, the real national income increased only from Rs. 6,274 million to Rs. 9,212 million. Real national income per capita rose from Rs. 617 to Rs. 700.

Table II summarises the trends in the different sectors of the economy over these two periods. As the table shows, the different sectors grew at different rates, resulting in a change in their relative importance in the economy. In particular, the agricultural sector's growth rate has lagged behind those of others. Consequently, its share in the GNP has declined from 49.3 to 44.7 per cent in the period 1950-60 and from 40.7 to 32.6 per cent in the period 1961-73. The industrial sector (i.e. Mining and Quarrying, Manufacturing, Construction and Electricity, Gas and Water) showed a higher growth rate which has resulted in an increase in its share of contribution to the GNP

49. N. M. Perera, Minister of Finance: *The Budget Speech 1975*, Government Publications Bureau, Colombo. In this budget speech Dr. Perera pointed out, ".....In a recent survey conducted on the total investment in the industrial sector where capitalisation is over Rs. 1 million, it has been found that out of a total investment of Rs. 275 million as much as Rs. 205 million is held by only 11 family groups". Referring to the tax holiday (for five years) companies he said "In all but one the profits for the five years exceeded the capital investment, in some cases amounting to between 300 & 500 per cent of capital" (p. 35).

50. It will be noted that the discussion in this section is given in terms of two sub periods—1950-60 and 1961-73. The reason is mainly the lack of a continuous series of data which is reliable and comparable, extending over the entire quarter century under review. The division is appropriate too, because the period after 1960 was really different from the one preceding because of the emergence of a 'closed' economy, domestic industrial development, and several other developments largely unknown in the earlier period.

51. Data from Snodgrass, *op. cit.*

52. Data from the Central Bank of Ceylon: *Annual Reports*.

Industrial Origin of GNP 1950-60 and 1961-73 (millions of rupees)

Sector	1950		1960			1961		1973		
		Percentage of G.D.P.		Percentage of G.D.P.	Percentage increase G.D.P. 1950-60		Percentage of G.D.P.		Percentage of G.D.P.	Percentage increase G.D.P. 1961-73
Agriculture, Forestry, Hunting & Fishing	1,963.7	49.8	2,716.7	44.7	38.3	2,613.5	40.7	3,387.6	32.6	29.6
Mining & Quarrying	6.2	0.2	5.8	0.1	—	31.8	0.5	266.6	2.5	731.25
Manufacturing	154.6	3.9	314.2	5.2	103.2	745.9	11.6	1,417.2	13.6	90.0
Construction	278.8	7.1	571.7	9.4	105.0	268.6	4.2	516.2	3.0	92.0
Electricity, Gas and Water	17.6	0.4	47.6	0.8	76.4	10.4	0.1	31.3	0.3	210.0
Transport, Storage & Communications	294.1	7.5	347.3	5.7	18.0	565.7	9.0	1,018.7	10.0	80.0
Wholesale & Retail Trade	325.0	8.2	473.0	7.8	45.5	839.4	3.5	1,383.2	13.3	65.0
Banking, Insurance and Real Estate	14.0	0.4	52.5	0.9	278.5	58.5	0.9	141.9	1.43	140.0
Ownership of dwellings	281.7	7.1	406.5	6.7	44.3	224.2	3.5	318.1	3.0	42.0
Public Administration & Defence	199.6	5.1	482.8	8.0	141.0	323.5	5.2	566.6	5.4	75.0
Services	406.9	10.3	654.6	10.8	60.9	783.3	12.2	1,379.4	13.0	76.0
G.D.P.	3,942.2	100.0	6,072.7	100.0	54.0	6,664.8	—	10,426.4	—	62.26
Net Factor income from abroad						-40.1		-43.9		
G.N.P.						6,424.7		10,382.5	100.0	61.58

Note: The figures for 1965-60 are at current factor costs while those for 1961-73 are at constant factor costs. This difference was unavoidable because of the unavailability of figures for 1950-60 at constant factor costs. Although it was possible to use current factor price figures for the period 1961-73, the above figures are more meaningful due to the high rate of inflation that prevailed over this period. In contrast, the price level increase in the preceding period was very mild. It should be noted, however, that no comparison is made on the basis of these two sets of figures.

from 11.6 to 15.5 per cent in the earlier period and from 16.4 to 21.4 per cent in the latter period. The Service Sector (i.e. Transport, Storage and Commerce, Wholesale and Retail Trade, Banking, Insurance, and Real Estate, Ownership of Dwellings, Public Administration and Defence, and Services) also increased its share.

Agricultural Sector.—This sector remained the single most important contributor to the GNP and the most important source of employment in the economy despite the slow growth rate it recorded over these years. Its dominant position was reflected particularly in terms of employment. The share of the total gainfully employed labour force of the economy directly employed by this sector was 52.6 per cent in 1946, 52.9 per cent in 1963 and 50.4 per cent in 1971.⁵³

The low growth rate recorded by the agricultural sector (see table 11) was mainly due to the sluggishness of plantation agriculture (i.e. Tea, Rubber, and Coconut). Due to its stagnation and the faster growth rate of the rest of the agricultural sector, due to mainly—paddy cultivation—the share contributed by plantation agriculture to the total agricultural output declined steadily from 74 to 51 per cent in the period 1950-60 and was only 31 per cent in 1973.⁵⁴ This decline however, was less marked in terms of employment. Direct employment in the plantations sector had declined only from 29 to 25 per cent of the total gainful employment over the entire twenty five years under review.

Although both demand and supply factors have led to the slow growth in plantation agriculture, the demand side seems to have had the more deterrent effect. This is because the two most important industries of this sector—tea and rubber—were adversely affected by continuing erosion of prices during most part of this period in the face of generally increasing output. Tea production increased by 60 per cent from 316 million pounds in 1950-51 to 497 million pounds in 1965-66.⁵⁵ The f.o.b. price of a pound of tea fell from Rs. 3.30 in 1955 to Rs. 2.22 in 1967. Since the cost of production of tea did not fall correspondingly, the profit margins have sagged. In the last few years there has been a drop in the rate of fertiliser use in tea plantations and a decline in output.⁵⁵ In 1973, due to a fall in production, Sri Lanka's tea exports fell short of her quota fixed under the Agreement of the Inter-Governmental Group on tea.⁵⁶

The rubber industry too has been hit by falling prices. The f.o.b. price of a pound of rubber declined steadily from Rs. 1.65 in 1960 to 97 cents in 1967. In the subsequent years too, except for 1969, it remained low before bouncing back to the 1960 level

53. Department of Census and Statistics: *Census Reports* 1946, 1963, and the *Statistical Pocketbook* 1973. The above figures may not be strictly comparable due to differences in the definitions of sectors, adopted in the census reports.

54. Snodgrass: *op. cit.*, p. 128, table 63. Central Bank of Ceylon: *Annual Report* 1973, p. 28.

55. Since 1966 except for 1968, however tea production has shown a declining tendency.

56. Starting with the Mauritius Tea Agreement of 1969 there has been a tea supply restriction scheme among major tea producers of the world under the aegis of the Food and Agricultural Organisation. Each country participating in the scheme is given a quota of supply for each year *vide* P. C. Bansil, *Ceylon Agriculture: A Perspective* (Delhi Dhanpat Rai & Sons, 1971) pp. 194-195.

in 1973.⁵⁷ The output of rubber which fluctuated in the fifties in response to fluctuating prices rose steadily from 96,000 tons in 1961 to 157,000 in 1970 due mainly to a rubber replanting scheme started by the government.

The behaviour of the coconut industry has been somewhat different. Here the problem has been mainly one of an inelastic supply. Although coconut prices have not shown any definite increasing trend, they seem to have been favourable in general. Production, however, increased only very slowly. The average annual output increased only by 20 per cent from 2,248 million nuts in 1951-53 to 2,697 million nuts in 1971-72. Rapid increase in the domestic consumption of this commodity in contrast to its stagnant supply led to a rapid decline in the share of exports in the total output of the commodity. This share dropped from 56 per cent in 1955-57 to 36 per cent in 1971-73. The acreage under coconut increased only by 6 per cent from 1,070,942 to 1,152,428 acres over the period 1946 to 1962 and then remained constant.⁵⁸ The yield per acre too has increased only very slowly. Some of the problems affecting the industry were the slow breeding of new varieties of coconuts by the Coconut Research Institute, the shortage of capital and poor extension services and the chronic under utilisation of fertiliser.⁵⁹ These problems have been particularly severe because, unlike tea and rubber, the coconut industry is mainly a small holders' industry—almost 70 per cent of the holdings being owned by small holders.⁶⁰

During the period under consideration, the government tried to help the plantation industry in several ways, the most significant of which were its replanting schemes based on cash subsidies and fertiliser subsidies to the producers. In the case of rubber it is mainly this replanting scheme which has saved it from possible disaster due to declining prices. The tea replanting scheme seems to have progressed satisfactorily but has not yet begun to yield benefits on a significant scale. For coconut, the scheme has been too slow. The tea industry has been further assisted by a factory modernisation scheme begun in 1966 and by a tax rebate scheme.⁶¹

The most noteworthy change that occurred within the agricultural sector over these years was the rapid increase in paddy production, which is the predominant form of activity in peasant agriculture. Peasant agriculture which had been neglected during the growth of plantations and was relatively unimportant even in 1948, came to receive increasing attention from the government in subsequent years and has come to occupy a significant place in the economy in recent years. Due mainly to the rise in paddy production, its share of the total output in the agricultural sector has increased from 26 to 69 per cent over the period 1950-73.⁶² Paddy

57. The price of natural rubber shot up in the world market in 1973 due to the supply of synthetic rubber being adversely affected by the oil crisis (Central Bank of Ceylon, *Annual Report 1973*, p. 233).

58. Department of Census and Statistics: *Census of Agriculture 1952*, Part III, Table I; *Pocket Book*, *op. cit.*

59. I.L.O. *Matching Employment* *op. cit.*, p. 63.

60. *Census of Agriculture*, *op. cit.*

61. Central Bank of Ceylon, *Annual Report*.

62. Snodgrass: *op. cit.*, p. The Central Bank of Ceylon: *Annual Report 1973*.

production increased by 160 per cent from 25 million bushels to 65 million bushels, growing at 8 per cent per annum over the period 1952-53 to 1971-72.⁶³ The area harvested increased from 1,027,000 acres to 1,647,000 acres while the average yield per acre rose from 29 to 46 bushels over this period.⁶⁴ The rapid increase in paddy output has made it possible for Sri Lanka to reduce its rice imports from 50 per cent to 28 per cent of total consumption over the period 1955 to 1970 despite rapid growth of population.⁶⁵

The steady progress of paddy production at a rate unsurpassed even by the most modern sectors of the economy⁶⁶ is quite remarkable in view of the fact that it is mainly a peasant activity. Most of this progress can be attributed to government policies directed towards the rejuvenation of the peasant sector. One such policy was the extension of the area under paddy cultivation by means of irrigation projects and peasant colonisation schemes. Since the supply of cultivable land in the Wet Zone had been exhausted (the acreage under cultivation here increased only by 0.4 per cent in this period) it became necessary to open up new lands in the Dry Zone. The acreage under cultivation in this area increased by 41 per cent over this period. By mid 1968 the number of colonists settled in the Dry Zone had increased to 80,000 while the acreage newly brought under paddy was 200,000.⁶⁷ The policies of extensive cultivation were accompanied by policies of intensive cultivation too. A guaranteed price scheme for paddy has existed since 1948. Peasant farmers have been supplied with an extension service, a fertiliser subsidy and also with credit facilities. New high yielding varieties of paddy have also been introduced. The Paddy Lands Act mentioned earlier sought to help tenant farmers by fixing maximum rents and guaranteeing security of tenure.

In addition to paddy, the production of a variety of subsidiary foods also increased particularly after 1960 when their imports were either restricted or banned altogether. The quantity index of highland crops (1962=100) increased to 161 in 1970.⁶⁸ As pointed out previously, Sri Lanka became self sufficient in potatoes, onions and chillies during these years, although shortages occurred now and then due to adverse weather conditions and other difficulties.

63. Department of Census and Statistics: *Statistical Abstract; Statistical Pocket Books* 1973.

64. *Ibid.*

65. Department of Information *Samajavaadee Gamana*, (Colombo, 1958) p. 9, Marga Institute, *Co-operative System of Small Farmer Credit in Sri Lanka*, (Sinhala Translation) 1971, p. 92.

66. The growth rate of plantation agriculture fell far short of that of paddy production. For example production of tea industry consisting mostly of large estates (described as "one of the most efficient industries of the world" (Bansil *op. cit.*, p. 186) grew at only 4% per annum in the period 1950-51 to 1965-66.

67. Bansil : *op. cit.*

The following observation illustrates the high degree of interest shown in paddy cultivation after independence : "The increased interest in paddy cultivation after independence is illustrated by the fact that the extent of paddy land increased by approximately 400,000 in the 84 year period from . . . 1862 to . . . 1946, and by a further 400,000 in the 20 year period between 1946 and 1966", *Report of the Land Utilisation Committee*, 1967, p. 20.

68. Department of Census and Statistics: *The Pocket Book*, . . . *op. cit.*

These, undoubtedly, were significant achievements. Nevertheless, much remained to be done for making domestic agriculture a dynamic sector capable of rapidly increasing the living standards of the peasants. Despite the progress recorded so far, the majority of peasants still live on the verge of poverty. According to, the Socio-economic Survey of 1969-70, the per capita income of 46 per cent of rural households was less than Rs. 400 per year.⁶⁹ The same survey indicated that while the rate of unemployment in the rural areas was 15 per cent of its labour force, 69 per cent of the total number unemployed in the whole island, belonged to the rural sector. Moreover, a large number of families in the rural areas are in debt.⁷⁰ Landlessness and small size of cultivation plots are other constraints faced by the peasants. According to the Census of Agriculture 1962, 41 per cent of prepared paddy holdings covering 17 per cent of land under such holdings consisted of plots under one acre.⁷¹ This situation has probably worsened since then because the cultivable land in the rural areas has increased more slowly than the growth of rural population and the density of such population per acre of cultivable land increased from 1.34 persons in 1946 to 2.02 persons in 1969.⁷² There is also an acute shortage of other inputs such as water, fertiliser and credit. Scant attention has been paid to activities such as dairy farming and animal husbandry in general, which are necessary for a more diversified peasant agricultural base.

A vigorous policy directed towards rapid development of the peasant sector is necessary not only for alleviating poverty among the mass of the population but also for reducing the pressure on the balance of payments through a successful programme of import substitution in all essential foodstuffs. Raising productivity in peasant agriculture particularly in the Dry Zone is also necessary to raise the low benefit-cost ratios of the peasant colonizations schemes in which vast amounts of scarce investment funds have been sunk in the past.⁷³

Industrial Sector.—The high growth rate seen in this sector was almost wholly due to the progress made in manufacturing and construction—the two sectors which contributed 90-95 per cent of industrial production. In the period 1950-60 the combined output of these two sectors increased from Rs. 433 million to Rs. 870 million at current prices, with the sectors' share in the GNP rising from 11 per cent to 14.6 per cent. Employment increased from 359,724 to 398,930 persons or 12 per cent to 12.4 per cent of total employment in the economy.⁷⁴

69. *Socio-Economic Survey*—*op. cit.*

70. In 1957, 54% of rural families were in debt while the average debt per family was about 34% of average annual family income. Department of Census and Statistics. *Survey of Rural Indebtedness Ceylon 1957*, Table 2.

71. Department of Census and Statistics. *Census of Agriculture 1962*. Vol. III, Table IV.

72. Jones & Selvaratnam, *op. cit.*, p. 193.

73. A good example in this respect was the Gal Oya Colonization Scheme. A committee of Inquiry which made an exhaustive study of this scheme reported "Our detailed findings have revealed some striking features to which close attention must be paid by policy makers in the future. The first is the poor benefit cost ratio of the colonization element of the Gal Oya Project". *Report of the Gal Oya Project Evaluation Committee*. Sessional Paper No. 1, 1970, p. 240.

74. Department of Census and Statistics—*Census Reports*.

The manufacturing sector, however, was small in this period. Industries of this period were mainly of small scale, and associated mostly with the primary sector. They included, handloom textiles, coir, oil and milling, plumbago mining, rubber goods soap, cement, and electricity. The index of industrial production rose from 92.4 in 1954 to 135 in 1959 (1952=100).⁷⁵

The growth of a large industrial sector seems to have been discouraged by the existence of a free trade policy and a policy of non-participation in industry by the government, the latter being true in the first half of the fifties. As there was no balance of payments problem until late in the decade, the country's requirements of manufactured goods were imported.

In the period 1961-73 the value added in manufacturing and construction rose from Rs. 1,015 million to Rs. 1,933 million, at constant prices. The share of contribution to the GNP increased from 15.8 to 18.6 per cent. Employment increased from 398,930 to 459,800 persons or from 12.4 to 15.7 per cent of the total employed labour force in the economy.⁷⁶ During this period manufacturing activity became increasingly buoyant due to two factors. Firstly, the stringent import controls in existence since early sixties, gave rise to a captive market for manufactured goods. To meet the demand for scarce imports, local import substitution industries mushroomed behind the protective wall of import controls and high tariffs. The high import intensity of these industries was not a barrier to them because raw materials and capital goods could be imported under these regulations, some even at tariff concessions.⁷⁷ Secondly, since 1956 the government has embarked on a deliberate policy of industrialisation in which the government sector itself assumed the sole responsibility of setting up heavy industry. We have already referred to the state economic enterprises that were begun after 1956. It would suffice here to mention that by 1973 the government had set up 25 Industrial Corporations. The total investment of these ventures rose from Rs. 92 million in 1956 to Rs. 2,414 million in 1973 with gross output rising from Rs. 50 million to Rs. 1,074 million at current prices.⁷⁸

There were however, several drawbacks in the pattern of industrial development of this period. Firstly, it was heavily biased towards the manufacture of consumer goods. Secondly, industrial activity was highly import intensive. Thirdly, these industries catered almost exclusively to the local market as a result of which they were of little or no help in enhancing the economy's foreign exchange earnings. Fourthly, they were highly capital intensive, because of which the manufacturing sector has helped little to solve the unemployment problem of the economy. Industrial progress

75. Snodgrass: *op. cit.*, Neil Dias Karunaratne. *Techno-Economic Survey of Industrial Potential in Sri Lanka* (Colombo, Industrial Development Board of Ceylon, 1973).

76. Department of Census and Statistics. *op. cit.*

77. This does not of course mean that they had no difficulties on account of foreign exchange scarcity. On the contrary, as the years went by they found it difficult to expand or produce at capacity levels due to insufficient availability of imported inputs. (see, The Central Bank of Ceylon: *Annual Reports*).

78. Central Bank of Ceylon: *Annual Reports*; For a survey of Sri Lanka's industrial development vide Neil Dias Karunaratne. *A Techno-Economic Survey of Industrial Potential in Sri Lanka*; the articles by Karunatilake, Kanessalingam, Divatia, and Jayawardena in *Research and Industry, op. cit.*

of this period has suffered from a lack of planning and co-ordination by the government. Even the government run corporations lacked advanced planning and systematic management and only a handful of them have so far been able to play a commercially viable role.

Service Sector.—A relatively high growth rate was seen in this sector too particularly after 1961. The most noteworthy expansion was seen in the Banking and Insurance and the Wholesale and Retail Trade sectors. Banking activity in the economy spread rapidly after 1960 with the establishment of the People's Bank by the government to cater specially to the rural sector and the co-operative societies. The expansion of domestic agriculture and import substitution activity in industry were particularly helpful for the progress of banking business and trade and for their extension beyond foreign trade and plantation sectors which were their traditional areas of concentration.⁷⁹

(b) Resource Use

During most of the years under consideration there has been a tendency for the economy's use of resources to exceed the amount generated, as shown by the existence of a recurrent balance of payment deficit since 1957.⁸⁰ Although both aggregate consumption and investment increased, the former continued to remain at a very high level throughout. Thus in the period 1950-60, it rose from Rs. 3,615 million to Rs. 5,929 million whereas the GNP at current market prices rose from Rs. 4,171 million to Rs. 6,476 million.⁸¹ Consumption had increased by 64 per cent in contrast to a 55 per cent increase in the GNP. Gross Domestic Capital Formation increased from Rs. 382 million to Rs. 785 million. In the later years, however, a part of this investment was financed by the inflow of foreign resources. In the period 1959-60 for example, the rate of investment in the economy was 13.5 per cent while domestic saving was only 9 per cent of the GNP. In the period 1961-73, consumption increased from Rs. 5,838 million to Rs. 14,246 million or by 144 per cent while the GNP at current market prices increased from Rs. 6,696 million to Rs. 16,816 million or by 151 per cent.⁸² Gross Domestic Capital formation rose from Rs. 1,102 million to Rs. 2,630 million with slight occasional fluctuations. As a ratio to the GNP however, it did not show a rising trend although it reached somewhat high levels in the years 1968-70. For the period 1961-73 as a whole the average rate of capital formation in the economy was 16.0 per cent. Since the average domestic saving rate was only 13.5 per cent, foreign resources continued to finance a part of Sri Lanka's domestic investment throughout these years.

III. SOCIAL WELFARE

In contrast to the disappointing performance of the economy in terms of the usual tests of economic efficiency and growth rate of the GNP per capita, remarkable progress was made on the front of social welfare during this period. "A health service which though not in all respects comprehensive, was unusually so by Asian standards"

79. Central Bank of Ceylon: *Annual Reports*.

80. *Vide, supra*, discussion on foreign exchange crisis.

81. Snodgrass: *op. cit.*, Table A-2.

82. I.L.O.: *Matching Employment... op. cit.*

created by the state resulted in a remarkable improvement in the average health standard of the population. The crude death rate declined from 21.5 per thousand in 1945 to 7.5 per thousand in 1970. The infant mortality rate dropped from 140 to 51 per thousand live births in the same period. Maternal mortality rate declined from 16.5 to 1.2 per thousand live births.⁸³ The average life expectancy at birth increased from 43.9 years to 64.8 years for males and from 41.8 years to 66.9 years for females over the period 1946 to 1967.⁸⁴ A comparable advance was made in the sphere of education too. Due to a system of free education provided by the government from kindergarten through the university there was a rapid expansion of educational opportunities to all classes of the population, particularly the vast majority of the low income group. The literacy rate increased from 37.8 to 82.6 per cent in the period 1946-69 while the proportion of population with secondary school education rose from 9.8 to 30.4 per cent.⁸⁵

Other social welfare measures introduced by the government over these years included large scale subsidies and price controls, pensions and poor relief. The rice subsidy in particular, although it has been "an expensive way of helping the poor and an economically vulnerable"⁸⁶ measure, has led to the improvement in the nourishment of the recipients at least in calories and to the prevention of starvation seen in some other less developed countries. Due to a deliberate policy of wage increases to workers and a policy of progressive income taxation, significant progress was made in the sphere of income redistribution. The Gini Concentration ratio of income distribution declined from 0.50 in 1953 and 0.49 in 1963 to 0.41 in 1973.⁸⁷ According to a recent study of 18 countries by a World Bank group, the growth rate of income share of the lowest 40 per cent of income receivers in Sri Lanka for the period 1963-70 was 8.0 per cent per annum.⁸⁸ This rate was the fourth highest for this income group among the 18 countries studied.

These achievements have indeed been commendable. They have not only fulfilled a sense of social justice but have also helped to maintain the stability of the country's socio-political system. Furthermore, in providing an extensive programme of free education and free health facilities, they laid a strong basis for the long run increase of the economy's stock of human capital. Their continuation into the future would no doubt be necessary, at least from the point of view of view of social justice, but perhaps on a more selective basis to help only the really needy groups among the public. It should be stressed however, that neither these achievements nor their necessity on humanitarian grounds should blind the policy makers from the need for at least an equal emphasis on a sound programme of diversifying and developing the economy. In the past these welfare measures may have enabled the politicians to play the game of politics by merely tinkering with economic planning. But now the contrast between the expectations of the people for higher living standards and the economy's ability to fulfill such expectations is so great that a sustained programme of economic development designed to transform the whole economic structure seems to be an urgent necessity.

83. Administration Report of the Registrar-General, *op. cit.*

84. Department of Census and Statistics: *Pocket Book*, *op. cit.*

85. Department of Census and Statistics: *Census 1946; Socio-Economic Survey*. *op. cit.*

86. I.L.O., *op. cit.*

87. Central Bank of Ceylon: *Survey of Sri Lanka's Consumer Finances*, 1973, p. 62.

88. Ahluwalia : *op. cit.*, pp. 5-6.