ECONOMIC REVIEW

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CONTENTS

FEATURES

COVER STORY

COLUMNS

NEXT ISSUE

- Black Gold : The growth of the oil crisis and its ramifications
- Women's Year Feature. The exploitation of women in Sri Lanka
- Appropriate Technology — Development and Under-Development

THE ECONOMIC REVIEW is intended to promote knowledge of and interest in the economy and economic development process by a many sided presentation of views & reportage, facts and debate.

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DIARY OF EVENTS

February 28 — A five-year trade and aid agreement between the EEC and 46 countries of Africa, the Caribbean and the Pacific (ACP) signed in Lome, Togo.

March 2 — Indonesia, Malaysia and Thailand, three of the world's largest natural rubber producing countries, met in Kuala Lumpur to work out the details of setting up an international rubber buffer stock.

3 — The Swiss National Bank reduced its bank rate to 5% from 5½%. The Lombard rate remains unchanged at 6%.

3 — Argentine peso devalued against the dollar from 5 new pesos to 10 and the financial rate to 15.05 and 15.10.

3-7 — Representatives of Latin American and Caribbean financial establishments met in Mexico City to prepare joint negotiations with foreign creditors for a larger flow of long-interest loans to the area.

4 — The U.S.A. and Iran announced the signing of an agreement on a 15 billion dollar deal in non-oil trade, described as the biggest ever economic agreement between any two countries.

4-6 — First summit conference of OPEC Heads of State was held in Algiers. A declaration issued at the conference stated that oil prices should be linked with inflation and the cost of manufactured goods and technology.

4-12 — Commonwealth Conference on Food Production and Agricultural Development held in London.

6 — Conference of International Energy Agency opened in Paris.

6 — Bank rates cut by three EEC countries — West Germany, Holland and Italy. West Germany reduced its bank rate from 5½%—5%, and the Lombard rate from 7½% to 6½%, the Dutch Central Bank announced a one percent reduction from 7% to 6% and Italy reduced its prime rate by one point to 17.25%.

6 — ESCAP adopted a resolution at its annual session in New Delhi calling for the setting up in India of an Asian Centre for transfer of technology.

7 — The Federal Reserve Board announced a reduction in the American bank rate from 6¾% to 6¼% effective on March 10.

10-14 — U.N. Food and Agricultural Organization Council met in Rome.

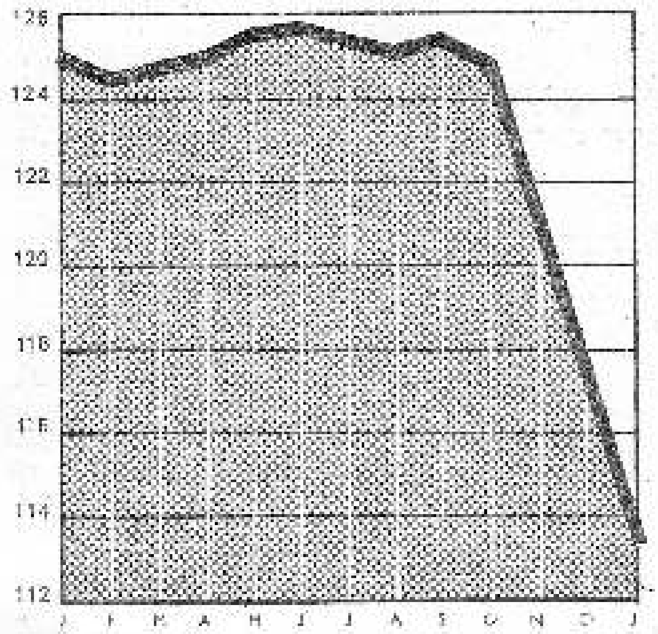
10-21 — 6th Session of the UNCTAD's Trade & Development Board was held in Geneva.

14 — An IMF report stated that in 1974 the oil producing countries recorded a trade surplus of $97,000 million against the previous year's figure of $22,000 million.

17 — U.N. Law of the Sea Conference was reconvened to draft a comprehensive convention for the use and exploitation of the world's oceans.

18 — GATT announced in Geneva that World Trade in 1974 registered its lowest growth since World War II — it fell from an increase of 15 per cent during 1973 to less than 5 per cent in 1974 — and the prospects for 1975 are even gloomier.

18-21 — The Joint Committee for Economic Co-operation between Sri Lanka and Yugoslavia held its first meeting in Colombo.



A precipitous drop in America's industrial production from Jan. 1974 to Jan. 1975. The fall had recorded its largest monthly drop in 37 years in January, 1975. (1967 = 100)

Recession hits the stomach. Unemployed Americans queue up for free food.

THE ECONOMIC CRISIS

The opening weeks of March witnessed a lowering of the bank rates in both the U.S. and Britain in still another bid to breathe new life into their ailing economies. In early April, the American public has been let in on the grim facts that its unemployment rate had reached an all-time high of 8·7%, while industrial production had dropped a further 3.6% in January, to record its biggest fall in 35 years. A few weeks earlier, President Ford had revealed in his budget for 1975 that U.S. consumer prices would reach a new high, rising upto 11.3% while the real G. N. P. would record its steepest fall of minus 3.3%. This recession that has plagued the American economy over the last 18 months has hit the economies of all industrialised countries almost as hard. These were but a few of the more recent signs that the world economy was going through its most difficult phase since World War II.

Galloping inflation, acute imbalance in the international payments system following a collapse of the old monetary order, near stagnation in the real output of many major nations, along with soaring levels of unemployment have continued to create a situation of danger and uncertainty for those developed and developing countries having market economies.

After the end of World War II especially since the 50's in Western Europe and the 60's in America, Western governments had apparently learnt how to avoid deep economic recessions. Under Keynesian economics they learnt how to relax credit and stimulate demand by either cutting taxes or by increased Government spending or both. The post World War II period saw an increased prosperity in the Western World and a feeling existed that business cycles and depressions were basically a thing of the past. The consumer society and the new affluence was evident everywhere. The period also saw the increased pauperisation of the Third World as terms of trade continued to turn

Trend in the consumer prices index (percentage rise on the basis of annual average)

	1968	1969	1970	1971	1972	1973	1974
Belgium	2.70	3.75	3.91	4.34	5.45	7.	12.7
Netherlands	3.72	7.42	4.57	7.48	7.88	8.	9.6
France	4.64	6.05	5.65	5.21	6.06	7.4	13.6
German Fed. Rep.	1.65	2.59	3.83	5.13	5.76	7.	7.
Italy	1.28	2.66	4.97	4.78	5.75	10.8	19.4
United Kingdom	4.70	5.45	6.37	9.44	7.07	9.2	16.
United States	4.20	5.37	5.92	3.40	3.30	6.2	11.1

Source : Kredietbank

against raw material producers, whilst products of the industrialised nations continued to rise in price. This resulted in a virtual subsidising of the Western World economies by the Third World during the post war period.

As the economic crisis deepens in 1975 the conventional Keynesian economics is found to be increasingly inapplicable whilst the Third World continues to make increasing demands for a larger share of the world's wealth.

DIMENSIONS OF THE PROBLEM

A quick glance at the major indicators of the leading market economies of the world reveal the depth of the problem.

The United States

"The indicators of business conditions have switched from Yellow to Red" is how the U.S. magazine *Business Week* described the change from stagnation to recession in the U.S. at the end of last year. The automobile industry, a key branch of the U. S. economy has been severely jolted by one of its worst sales collapses in history. These storm signals are repeated in other branches of production too. For the first time since the war, the G. N. P. in the U. S. dropped by 2.2% in 1974 compared with a growth rate of 5.9% in 1973. Inflation too increased, for 1974 prices rose 10.2% compared with 5.6% in 1973.

The stock prices index in the United States, the main barometer of the economy, sank nearly 50% by December 1974 compared with its peak in January 1974, a loss in value of 500,000 million dollars. It has been having a minor rally recently which observers feel will probably be temporary because of the poor structural situation of the economy. Inventories of unsold stocks have greatly increased and business failures have taken a sharp upward turn, with even major firms in trouble. (Iran had to rescue the American flag carrier Pan Am a few weeks ago.)

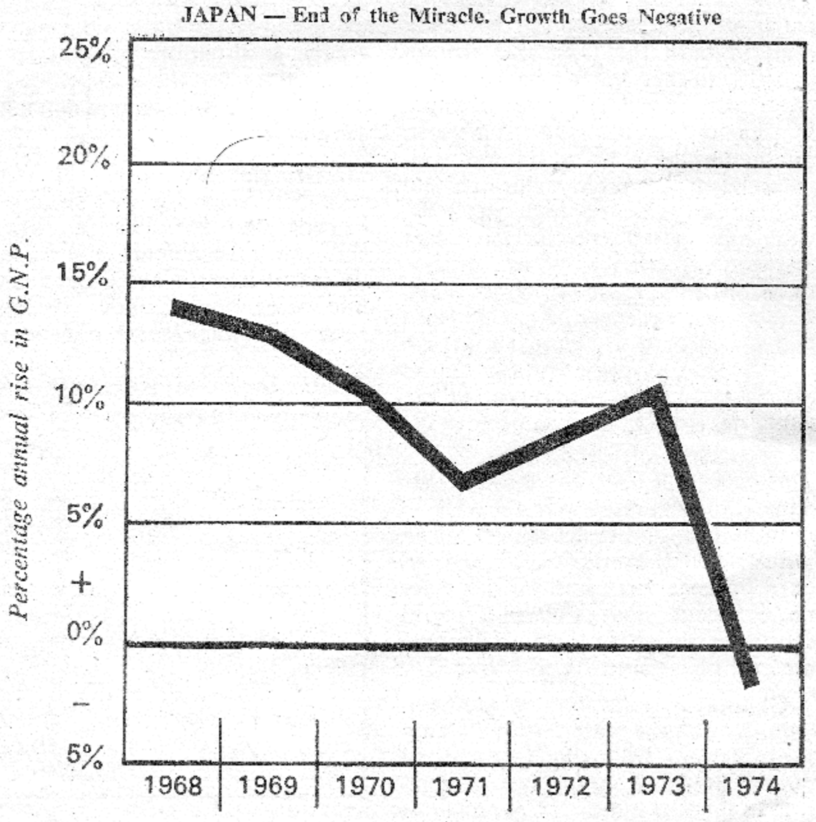
The decline in industrial production is widespread and accelerating and now touches the whole range of manufacturing - consumer durables, steel, chemicals, textiles are all in a rapidly accelerating downward spiral, while the automobile industry is further down the scale. Manufacturing is consequently now operating at only 70% capacity in the U.S. as a whole.

The result of the dramatic down turn has been a text book inventory recession as firms cut back on their unsold stocks of goods. Production is cut because of low sales, workers are then laid off, unemployment consequently rises, sales then shrink further and production is cut still further and so on, down the spiral. In the U. S. the downward spiral has in previous recessions been checked short of catastrophe because firms have managed, to increase production before consumers ran out of money to buy the goods produced. If the dramatically increased unemployment were to continue and purchasing power were to decline further, the present decline could result in the downward spiral running its full course, leading to a near total collapse.

After a slight increase in industrial production during 1973 the British economy found itself once again in a state of chronic stagnation last year. Prices on the London stock market reached the lowest point in the twenty years in 1974. Britain's balance of payments deficits ($ 9,000 million annually) exceed even Italy's ($ 6,000 million). The most recent London Business School (LBS) economic forecast confirms the seriousness of the medium term economic situation. Over the next three years as a whole the LBS sees total output as virtually stagnant, with no sustaining rise in any of the major components of economic demand. In output terms, the LBS sees the depth of the recession occurring in the first half of 1976.

In Italy balance of payments is in the red to a tune of $ 5,500 million; 1.2 million are unemployed and consumer prices have gone up by 25% in the last few months. Industrial growth has slowed down. Fiat production is down by 40% and nearly 1/3 of Fiat's 200,000 work force have been on a three day week since October. At the end of January 16 million Italian workers launched a national strike demanding retention of their jobs and opposing fascism. With the undercurrents of neo-fascism strong in Italy fascism is increasingly feared as the economic

JAPAN — End of the Miracle. Growth Goes Negative



situation nears that of the 1930's which gave rise to fascism in the first place.

In West Germany, the strongest European economy, the GNP is down and industrial production is slowing down, car production is reduced by a quarter. The West Germans however have faced only a 7% inflation rate, which is much lower than anywhere else in Europe. Unemployment in West Germany is around the 1 million mark and has been increasing for several months. Now West Germany has stopped importing migrant workers whilst it has been offering large sums of money to induce those already there to leave. In France, production was falling as 1974 ended and there was considerable scepticism that the Government's 1975 goal of a 4% increase would be reached. Slowdown in production had left France with a jobless level of about 700,000 at the end of the year.

As for Japan — 1974 saw the end of the "Japanese Miracle". In mid March the net decline on the country's GNP in 1974 was 1.8%. Reflecting the sharp increase in consumer prices, labour won a wage increase of 32.9% in a labour wage offensive last year. This increase rate was the highest in Japan's history and signals perhaps the collapse of Japanese feudalistic industrial relations. Those industries caught in a slump, including the textile and electric machinery industries, laid off many workers and called for voluntary retirement.

Japan's official forecast for fiscal year 1975 calls for the economy to hit rock bottom before mid-year and then begin a modest recovery.

Developing Countries

While inflation forged ahead among the industrialized market-economies of the West, the more successful of market-economies of Asia plunged in the past 8 months to levels of inflation prevailing some years ago. In several of these countries recession has already caught up while in others it is rapidly approaching.

In Asia the recession axe has fallen very hard on the export oriented countries. In Hongkong over 3,000 businesses had closed down by the end of 1974. The South Korean export boom has gone into reverse gear. Singapore advertised as the image of development in Asia is facing serious economic problems. Rollei of Singapore has plans to sack 3,000 workers and Fairchild has already laid off 2,000 workers.

The South Asian sub continent has had a very bad year because of the economic crisis and has been relegated, in some circles, to a new category called the Fourth World. In India 1974 was a very bad year and 1975 promises to be worse. Factories which are running at 60% capacity are expected to experience further drops in production as the recession piges. Unemployment has been leap frogging from 6.5 million registered in 1973 to 7.6 million in 1974 and 8.3 million projected for 1975. These of course, do not include the unknown millions who do not register. Overall consumer prices have risen on the average of 30% last year and some food items have increased by as much as 100%. The oil crisis is having its toll on shortages of power and fertilizer for agriculture. Last year the government imported 6 million tons of grain at a cost of 2 million dollars and imports this year are projected between $ 6 and 7 million. The rise of commodity prices (which are now falling as a response to a cut back in the industrialised countries due to the recession) contributed to an increase of nearly 30% in India's exports. Special mention has been made of sugar. Last year India got its highest "aid" quota from the Western countries giving $ 1.4 million in credits.

Pakistan had a bad year last year. Its economy declined markedly since it was dismembered in 1971. Bangladesh, the former eastern wing of Pakistan, is facing very severe economic problems that have been described as 'horrendous'.

Possibilities of domestic re-inflation are limited in these countries with the situation deteriorating so badly. Inflation in advanced countries is a somewhat different phenomenon than in the developing world. In most of Asia food accounts for around 50% of weighting in consumer price indexes, which explains why inflation rates were above world averages in several of these countries.

Unlike the industrialized world the developing countries are being squeezed from two directions. They must meet the increased cost of oil, yet the falling demand in the industrialized world is cutting deeply into their export earnings thus making borrowing increasingly difficult.

The recessionary trends in the world economy have also had their effects on commodity prices and hit many of the developing countries of the world. For these countries world recession is certainly something more than belt-tightening. It has been observed that the developed world would not escape this backlash. Some developing countries have borrowed heavily on the Euro-dollar market on the strength of their earnings from high commodity prices. Should these prices fall there could be major defaults among some big banks and repercussions on the world's financial markets could be serious.

The growing balance of trade deficits of the developing countries as a group could be traced to the recessionary tendencies in industrialized market economies. The deficits for the developing countries as a whole (apart of course from the oil producing countries) is expected to reach $ 30 billion this year, according to IMF estimates. Last year it was in the region of $ 22 to $ 23 billion, which was already a very serious problem. There is grave concern in all quarters on how to finance this gap.

The Socialist Countries

The crisis has affected the socialist countries only marginally and this at points where their economies interact with the capitalist West. Taken as a whole, however, their economies have remained far more stable. The integrated approach to economic development within their systems has left them relatively unaffected. China, for instance, finds itself in a unique economic position. Because of its size, resources and economic isolation from the world market economy, China has been almost immune to the energy crisis, soaring inflation and wild currency fluctuations that have swamped its neighbours.

In the Soviet Union with its recent concern for increased imports of Western machinery and equipment the downturn in the West could possibly affect these imports which have included West German power plants, French engineering units, American foundries, Italian automobile works and hundreds of other smaller items including advanced computers.

The surge in the price of raw materials has however helped to turn the Soviet trade balance from 0.8 million roubles deficit at the six month point of 1973 to a 1.3 billion roubles surplus in June 1974. The resulting trade surplus is giving the Soviets the ability to import increasing quantities of Western products.

Summing up

It is apparent that the economic crisis is biting hard all round the non-socialist world (except of course the oil rich countries, yet even here inflation has been high) and that its effects are going to increase further. The present crisis is unique in that, unlike all the post war downturns in capitalist economies, it has gripped the economies of practically all developed capitalist countries at the same time. In the past, for example, when output in Britain and France was going down production in Germany and Italy would be rising and provide a boost, through bigger imports, to the economies of the slump ridden nations. But just as all the Western countries were booming together in 1972 and 1973 now nearly all are in recession and helping to pull each other down.

The Roots of the Crisis

An impression has been created that it was the quadrupling of oil prices that brought on the economic crisis. It is clear, however, that a turning point in the world market economies had been reached much before the boycott organised by the Oil Producing and Exporting Countries (OPEC) in 1973. The contribution of the revised prices of oil to world inflation is small; according to Iran's estimate, only 1.7% in 1974, against an overall inflation of 14%. A world inflation, acute since 1971, long antedated the increases in oil prices. The progressive inflation plaguing the world, which dealt the final blow to the monetary system and has brought several countries to the brink of bankruptcy, fully explains the roots of the present crisis. The oil crisis has of course worsened an already grave situation.

Although 1974 and 1975 are witnessing a crisis of near tragic proportions, its roots and some of its major symptoms stretch back 5 to 7 years or more. The cries of gloom have been persistently heard from economists, social scientists and the like in many industrialized countries over the last several years. Henry C. Wallich, the U.S. economic commentator writing in *Newsweek* in 1966 said "It is a peculiar feeling, when something unpleasant is ahead and nothing can be done about it, but that is precisely what the economy faces. We seem to have manoeuvered ourselves into a box, where unless the Vietnam war accelerates, only two choices are left—*inflation or recession.* With a little bad luck, we might have both. We cannot even be sure that inflation will stop if there is a recession, and the farther the inflation is allowed to travel, the nastier will be the ultimate crash". Some of the elements which Wallich identified in 1966 seem in hindsight to have been crucial and what the world is experiencing today seems very near the ultimate crash, he predicted.

STRAINS ON THE SYSTEMS?

The major steps in the growth of the present crisis especially as it affects the leading market economy, the U.S., could be traced back to the mid sixties when the world had entered a period of dollar surplus in the international economy. This was coupled with a high growth in the economies of Germany, Italy, France and Japan with the U.S. lagging badly. These signs of trouble for the leading capitalist economy, the U.S. was brushed aside as a temporary phenomenon which it was thought would right itself in the late sixties. But this was not to be. Following the massive American intervention in Vietnam in the late sixties the dollar surplus turned out into a dollar glut. These military expenditures far in excess of the U.S. earnings in foreign trade caused massive amounts of dollars to pile up in the creditor countries. Even at that time the crisis was partly staved off by the willingness of European Central Banks to hold and

IMPACT ON

Sri Lanka's economy still continues to be a largely dependent import - export economy. The world recession that has intensified in recent months has placed our economy in a very critical situation. All efforts towards self reliance and even modest structural changes are being frustrated by these external forces, giving the country little alternative but to fall back on the external "debt trap". The extreme deterioration in terms of trade, in recent years, has placed Sri Lanka among that group of countries which has come to be recognised as "*most seriously affected*" by the world commodity price inflation.

Rise in import prices

The table below relating to volume and prices of our imports shows clearly the effects of the deteriorating terms of trade over the last few years.

Year	*Volume Index*	*Price Index*
1969	108	134
1970	102	140
1971	90	150
1972	88	158
1973	79	209

Between 1969 and 1973, imports went down by approximately 29 per cent. While average prices rose by approximately 56 per cent. 1974 showed a further reduction in the volume of imports accompanied by a substantially higher upward movement in prices. The 1975 import programme allows for an increase in imports other than food, petroleum and fertilizer. But, as this increase is likely to be more than absorbed by price increases the volume of imports of investment and intermediate goods and raw materials, is therefore on present official forecasts likely to decline during 1975.

The recent sharp increases in import prices, particularly of rice, flour, sugar, petroleum and fertilizer (see page 11) have created serious problems for the country

SRI LANKA

by driving up the amount spent on food and increasing costs in all sectors of the economy. This has also resulted in the country having to make certain food purchases at unfavourable terms. Thus, the Food Commissioner's foreign borrowings which were chiefly short-term credits in the past had become, last year, mostly supplier's credit with 15 and 18 months' maturity.

Industry has been also severely hit by the rising prices of imported raw materials. The share of manufacturing in the country's Gross Domestic Product is reported to have declined since 1971, while the increase in industrial employment has been slight. In the private sector, for instance several of the 2000 industrial units registered with the Ministry of Industries were said to be operating far below capacity and some of them have laid off workers as a result. According to official data the level of capacity utilisation is estimated to be as low as 35 per cent. Unlike in a resource rich country like the U.S. which is working at 70% capacity because of the breakdown of economic relations, the industrial sector of Sri Lanka is operating at low capacity, not because of low demand but mainly because of lack of raw materials and other resources. The falling output in the manufacturing sector, specially of consumer goods, has added to the inflationary pressures created by the demand for these goods in the economy.

A directly felt effect of the international monetary instability is the import of inflation into this country. The rapid changes in both import and export prices has had its resultant impact on domestic prices at all levels. This has left the country chasing the mutually contradictory goals: of on the one hand having to curb mounting inflationary pressures: and on the other hand to compensate for the fall in real wages of fixed income earners.

Exports

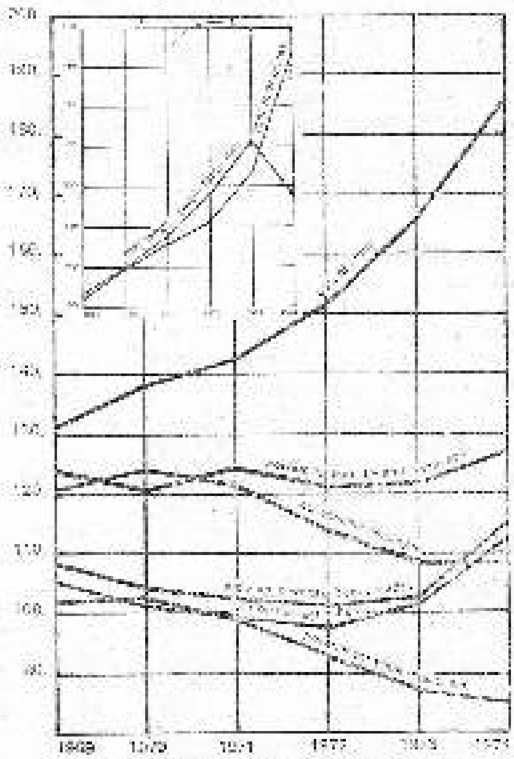
Whilst the effect of the rise in prices of imports has had an adverse effect on agriculture and industry the country has at the same time found it difficult to take full advantage of the rise in world commodity prices because of the difficulties faced in increasing the volume of exports of our traditional commodities. Although price increases were recorded for both tea and rubber the low level of production offset the advantages of price gains. In rubber, however, prices have continued on a downward trend in 1975 and the increase in volume of rubber exports may not help to offset falling prices unless there are spectacular developments for these commodities in the current year. The position is virtually the same for coconut products — earnings are not expected to go much above that of 1974, according to current trends.

The real growth of the non-traditional industrial export sector slowed down in 1974 because of the rapid increase in prices of the imported components of these products. The main factor contributing to the weakening of the country's manufactured export market has no doubt been the world recession.

Because of the increased outlay on essential imports Government savings have also been comparatively negligible with heavier public costs the result is that expenditure on development projects in 1974 have been, and in 1975 would most probably have to be financed largely from borrowing. In 1974, borrowing is estimated to have risen to over Rs. 1,500 million, about 42 per cent above the 1973 figures. Of this 56% was borrowed domestically and the balance 44% abroad.

On these trends the 1975 borrowing forecast could be at least the 1974 figure of Rs. 1,500 million if not more of which almost half would have to be borrowings from abroad. One aspect of such a situation that is causing concern is the increasing costs of loan repayments, especially as many of the foreign loans have been relatively short-term ones.

In 1973 and 1974 the country experienced a sharp increase in prices and it was particularly sensitive to world wide inflation because of its dependent position. Attempts to place less reliance on imports is being nullified by its adverse terms of trade. The instability in the international monetary order has only hastened this process. The impact of imported inflation is seen in the falling real living standards of the country, except in the rural sector, since 1969, accompanied by the steep rise in the cost of living. (see accompanying diagram).



Cost of Living and Real Wage Rates in Sri Lanka (1969 – 1975) compared with Japan (inset) for the same period.

Source: Central Bank of Ceylon and Bank of Tokyo.

accumulate paper dollars and not encash them in the U.S.

In 1971, however, a crucial turning point was reached when for the first time, in the 20th century the U.S. had a deficit on its foreign trade account and the overall deficit on its capital account in the third quarter reached the formidable figures of $ 12 billion. The European Central Banks found themselves virtually drowned with paper dollars and wanted no more of them. Pressure on the dollar rose dramatically and on August 15, 1971 the U.S. officially abandoned the convertibility of dollars to gold. The European Central Banks ceased to support the scheme of international exchange rates and major currencies were now allowed to float. This meant the collapse of the international monetary system that had grown up since World War II.

The Western money markets outside the U.S. now hold more than 100 billion Euro dollars which has often been the subject of much speculatory activity. Many multinationals based mostly in the U. S. have often switched money from country to country to gain on the continuing differences in exchange rates. This has only further heightened the general instability in the monetary system and prompted German Chancellor Herr Schmidt to state sometime ago that the "wobbly international monetary market might totally collapse tomorrow". With this uncertainty has come the rush for gold which sold in recent weeks at more than 4 times the official U.S. convertible figure of $ 42.2

The New Third World Militancy

The new militancy in the Third World specially its determination to reverse the trends since the Second World War, (which saw its terms of trade continually worsening) has added to the instability. The "economic miracles" of the West during the post-war period and the growth of the consumer society in these countries were but a necessary adjunct to the pauperization of the Third World.

The new mood in the Third World as it demands an increased share of the world's wealth was most dramatically reflected in the "oil crisis". The massive about-turn in terms of trade between the West and the Third World this brought about, seeing it in its historical context, is the first major separation of the association of capital from people of West European stock since the growth of the world economy in the sixteenth century. This cataclysmic event has led to major shocks in the world system.

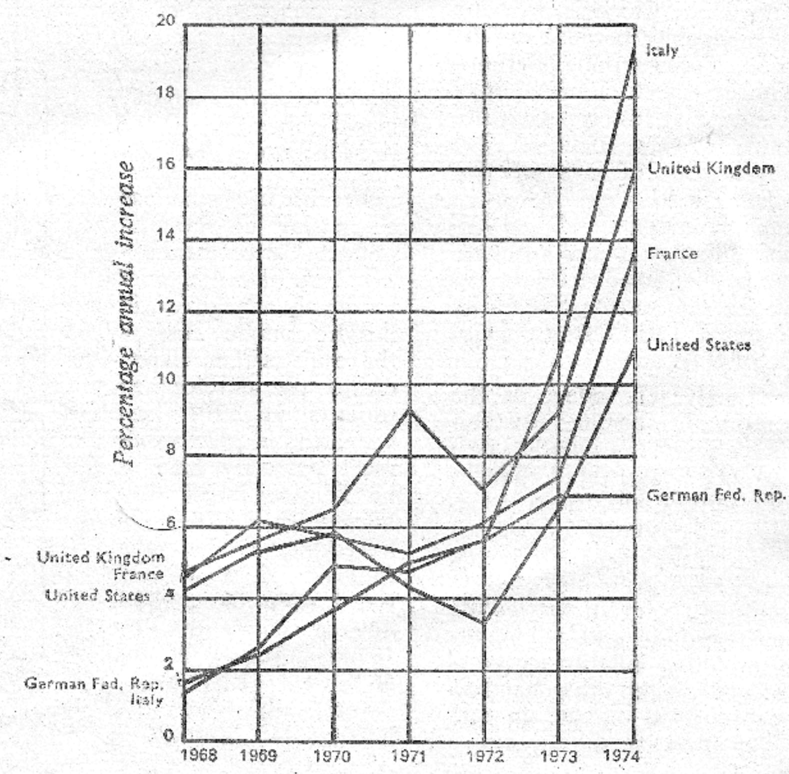
Professor Kindleberger of California analysing the roots of the earlier capitalist depression has stated that for the world economy to be stabilized there has to be a stabilizer, meaning a single country or a set of countries dominating the rest of the world. With the new mood of the Third World denying such "stabilizing" roles for rich countries of the world, we are in for a continued period of "instability". Thus the major sign of this new mood, the oil price hike, has resulted in the fact that the oil producers will run a balance of payments surplus of $ 60 to 80 billion this year. This means that the rest of the world will run an equal balance of payment deficit, leading to further strain on the economic system.

RESPONSE

The responses to the crisis by the market economies have depended on their ability to control the main economic forces. It is the major countries, principally the U.S., that has been exporting the recession. Countries dependent on the economic well being of the metropolitan countries (like Singapore, Hongkong etc.) have the least control of the situation.

Yet unlike in the immediate post-war period any individual country's dominance over its own economy is no longer complete. One factor has been the growth of large monopolistic multi-national corporations whose operations and interests now transcend national boundaries. (In fact the action of multi-nationals in switching their assets from country to country in search of better exchange rates was one contributing factor to the present crisis). Secondly major changes in the positions of the dominated and dominant are occurring as the Third World increasingly flexes its muscles, as the oil situation has indicated. Kindleberger who analysed the causes of the last depression argued strongly for a

TREND IN THE CONSUMER PRICES IN SOME LEADING WESTERN COUNTRIES



COLLAPSE OF EXPLANATORY SYSTEMS?

The 1930's are remembered for the collapse of existing economies and the consequent growth of fascism as well as new forms of Government control over the economy. It is also remembered for an entire new breed of social sciences that grew up to explain the new social realities which the depression brought in its wake. The economic crisis resulted in the collapse of the conventional explanations of economics, sociology and other social sciences in explaining the calamitous collapse of the system. Both valid explanations as well as new remedial actions and suggestions were not forthcoming from the traditional sciences. With this background entire new approaches in the social sciences arose to explain the new social reality. What are today the standard explanatory systems in Western, social sciences, Keynsianism in economics, Parsonian sociology and structural anthropology were results of the crisis and attempts to give new explanatory systems.

The current crisis has resulted in a similar collapse of explanatory systems as was evident in the 1930's. With both stagnation and inflation together with high unemployment being characteristic of many present day western economies the antidotes which Keynes provided in the 1930's are being found to be increasingly unworkable. The quandry in the industrialized market economies was clearly expressed by the *Washington Post*. "The trouble now is that we are not dealing simply with 1951's inflation or 1958's recession, but with both of them together and the cure for each aggravates the other", or by Japan's *Current Affairs Analysis* "To curb inflation is to create depression; to avoid depression is to increase commodity prices. Thus the current Japanese economy is in a state of self contradiction and dilemma".

Because of the breakdown of the explanatory system, a new jargon has arisen to describe the apparent unique contradictions of today's economic malaise. Thus according to the conventional wisdom both economic stagnation and inflation should not occur together, but it now does; and has given rise to the concept of "stagflation". Similarly a perverse combination of a slump and inflation exists today and a new word "slumpflation" has been created. Unemployment is supposed to slow inflation but it is not doing much in this direction and so yet another new term "unempflation".

With the collapse of explanatory systems and with statesmen running around in circles searching for new solutions demands have risen for "new explanations".

Thus the influential American economist John Galbraith, who had served in advisory functions to many U.S. Governments proposes this in his latest book *Economics and the Public Purpose*. In this book he has consigned existing economic theory and policy to "a museum of antiquities" and would replace them with new theories and new policies. The sun, he says, has set in on the whole structure of thought associated with the text-book doctrines of the Western economic establishment and a very large number of young economists are in revolt. His view is that economic theory is today non-functional and that the major problems of modern economy are barely mentioned in this literature.

Geoffrey Barraclough the distinguished British historian and commentator again points out that with both recession, inflation and high unemployment being characteristic of many present day western economies the antidotes which Keynes gave in the 1930's has now collapsed. "The current economic theory has no answer to this problem at all" he states. With the present collapse of the explanatory systems he suggests "what we need is a new Keynesian revolution to get neo-capitalism out of its mess".

In the other social sciences Gouldner in his widely read book *The Coming Crisis in Western Sociology* points out that western sociology arose in the 1930's and 1940's as a response to the economic crisis. Under his analysis the dominant form of western sociology grew out of a circle of conservatives at Harvard University who began to stress the importance of moral integration of society at a time when this basis of order in society was being questioned as a result of the deep crisis of the depression. The resulting body of thought was a kind of 'sociological Keynesianism' arising out of the same crisis from which Keynesianism gained acceptance. The new economic crisis has seen a fresh breakdown of the 'moral integration' of western societies and social "unrest" is increasingly prevalent.

As the economic crisis deepens and as both statesmen and academics grope blindly around to explain and control what is happening new explanatory systems are bound to occur. As a response to this one sees another echo to the 1930's namely a remarkable revival of marxist thought in centres of Western academia. These include the persons whom Galbraith refers to "as the economists in revolt" and what Gouldner indirectly uses as a reference point in his book. One sees also a new growth of ideologies of the far right especially from persons like Friedmann and Greenspan of the U.S., a cry back to the growth of fascist ideologies in the 1930's.

"stabilizer" or dominant country. Recent attempts in Western economies to move out of the depression are largely to be seen in this light.

American Reaction

Within the U.S. itself economic policies have been very unsuccessful at checking the situation and both the Congress and people are increasingly getting dissatisfied with the Ford regime, as a consequence. The London *Economist* said a few weeks ago that Ford's presidency was such that management of the economy during his seven months of office have "for practical purposes been wasted and that economic management bids fair to be the decisive presidential campaign issue in 1976". In last October, Ford proposed that inflation was the main enemy and brought in income tax surcharges combined with cuts in Federal spending. He urged the people to tighten their belts and promised that the U.S. government would equally do so.

However, recently Ford has taken a right about turn and has started stimulating the economy and has proposed tax cuts. Yet his attempts to spur the economy have failed and although interest rates have been cut the demand for money far from picking up has dropped dramatically. In New York alone, bank loans to business have fallen $ 2.9 billion since the start of the year. Apparently attempts to tempt industry to get moving again by an easy money policy are not proving a success.

Ford's many advisors, especially Greenspan and Arthur Burns, the latter Chairman of the Federal Reserve Board, have been increasingly criticised in the last few weeks for their policies. These criticisms have come from right wing economists like Friedman, as well as liberals like Samuelson, labour leaders, the Congress and editorial writers.

In Europe standard Keynesian policies have been followed to no avail specially as its recession arose from ripple effects of the U.S. recession. As inflation rises and real incomes are cut, demands by militant workers have been increasing. General strikes have occurred in France, West Germany and Japan. Virtually all European countries have attempted some form of incomes policy and indirect wage restraint to hold down workers wages. These have largely failed.

The International Context

At the international level the U.S. and other Western countries have been making renewed efforts to re-establish their hegemony so that "stabilization" could again be brought about. Price rises, currency gyrations and heavy balance of payments deficits caused by higher oil bills and world commodity shortages have thrown the Americans and Europeans together again. In January there was feverish activity among the Common Market countries who decided with the I. M. F.'s interim committee of its Board of Governors to continue and enlarge the "oil facility" for 1975. Running for shelter, the Nine (ECM) and the United States have agreed to a 6 billion petro-dollar money box at the I. M. F. as well as in principle, to the $ 25 billion "solidarity" fund pushed by Henry Kissinger.

Fear that a deep crisis gripping all the capitalist countries at once might lead to economic disaster and the fear of the new Third World militancy might lead to further reversals of Western economic primacy are what have apparently united the developed Western countries at the moment. An additional factor has been the desire "to win the money game" by using the OPEC countries' oil earnings for long-term investment in the crisis-stricken Western economies. It appears that hope in the Western capitals is that the establishment of a "single bank" will make it possible to conduct the dialogue with the oil producers from a position of maximum strength or to use Kindleberger's phrase, 'the re-emergence of a stabilizing dominant country'.

Observers have pointed out that the worsening crisis will see an increase of government planning and other semi-"socialist" measures being adopted as a means of getting out of the crisis. (See our section on *Banking and Finance* where we have pointed out some of these tendencies). But the crisis of today cannot be managed by just one or two countries' action alone as in the Thirties. Even the United States does not have control over its multinationals which are a major part of the problem.

Further, as the Western countries again seem to draw together (one result of which is apparently the recent drop in oil consumption) and attempt to re-establish a new hegemony on their terms, the Third World is not standing idle. Emboldened by the success of the oil exporting countries, Third World countries have been making increasing demands for a new economic order. Various resolutions have been moved in many decisive bodies from the U.N. to the Law of the Sea Conference, all having the common theme of a more equitable distribution of the world's wealth.

As the crisis deepens in the months and years to come Western nations have a crucial choice to make. Either they could attempt to re-establish world hegemony by militarist and other means (recent hints by Kissinger and Ford have indicated that this colonialist course has not been ruled out) with all the danger that it entails. Or the Western economies could offer a New Deal to the Third World and help all afflicted economies get out of the crisis.

The New Deal of the Thirties helped get the U.S. out of the crisis by giving purchasing power and work to the unemployed and the poor of the U.S. In the mid 1970's the world is too deeply integrated for any within its borders alone to get it out of its mess although such actions too are necessary. The integrated world economy can only get out of the present situation by giving purchasing power to the poor and unemployed of the world economy that are today in the Third World. In concrete terms this would mean an accommodation of the new demands of the Third World and reversal of thepost-war trends in the terms of trade of the Third World which has led to the latter's pauperization and growth of unemployment.

Such a dramatic change seems to be the most plausible way out of the crisis. But such moves will only be adopted by the West only at the resort. Centuries of colonial habits die hard.

THE ECONOMY

Soaring import costs widen Sri Lanka's trade gap

The country's adverse balance of trade reached an all time high of Rs. 1,107.1 million in 1974. The previous highest deficit in our terms of trade was recorded in 1967 when excess of import values over export earnings was Rs. 627 million.

According to Customs data, the value of our exports went up from Rs. 2,617.1 million in 1973 to Rs. 3,471.9 million in 1974, while the value of imports has risen from Rs. 2,714.7 million in 1973 to Rs. 4,554.3 million in 1974. A feature of interest here is that while the country had to pay Rs. 829.6 million more for its imports last year its export earnings went up by Rs. 854.8 million more than in the previous year. Comparing the increases in import values and export earnings of last year with that of the 1973 figures it could be observed that export earnings were Rs. 25.2 million more than the increased import values (Rs. 854.8m. versus Rs. 829.6m).

Import payments — Rice trebled, Flour doubled, Sugar halved

The main reason for the steep rise in the country's import bill was the very much higher price we had to pay for purchases of rice, flour, sugar, cotton, fertilizer, petroleum and base metal items. These items account for nearly 80 per cent of Sri Lanka's import bill. Imports of rice, flour and sugar alone cost the country almost Rs. 1,800 million in 1974.

The value of rice imports almost trebled, despite the fact that less rice was imported last year. In 1973 approximately 310 tons at a value of Rs. 260 million were imported, whereas in 1974 approximately 295 tons were imported at a value of nearly Rs. 740 million.

In the case of flour import values more than doubled, going up from approx. Rs. 420 million to Rs. 920 million. The value of sugar imports, however, was more than halved coming down from Rs. 300 million in 1973 to Rs. 125 million in 1974.

Two other major items responsible for the almost 80 per cent increase in the country's import bill were petroleum products and fertilizer and chemical products. The value of imports of petroleum products rose from Rs. 300 million in 1973 to Rs. 910 million in 1974; while imports of chemical and allied products, including fertilizer cost the country only Rs. 276 million in 1973 as compared with Rs. 532 million in 1974.

Much less machinery and mechanical appliances (in value terms) were imported last year. Imports of machinery and equipment which cost Rs. 226 million in 1973 were reduced to Rs. 177 million in 1974.

TOURISM

The tourist industry which had been growing at an average annual rate of 24% from 1969-1973 recorded a dramatic 30% drop from 39% in 1973 to 9% in 1974. And the present year promises to be no better with the industrialised countries, from where the majority of tourist arrivals originate, going into the worst year of the recession. This check on growth has come at a time when infra-structure investment in the industry has been rising with accommodation expanding rapidly from 770 rooms in 1967 to 2756 rooms in 1974 — a near 400% increase. The slowing down has been causing growing concern in the tourist trade and by the end of January 1975 the trade was urging the authorities to stay further development of the tourist programme.

However, the Chairman of the Ceylon Tourist Board stated that although the international economic crisis had its impact on Sri Lanka, our performance has been much better than the rest of the world or South Asia. He attributed this to the fact that Sri Lanka was better known in world travel trade because of improved and expanded facilities and because competitive prices still prevail in Sri Lanka with FEECs at 65%. The other reason for this modest success, he said, was the successful publicity drive abroad.

The decrease in tourist traffic attributed to a worsening international economic crisis, was not confined to Sri Lanka. Established tourist resorts have had to take their share of losses too. Spain, for instance, found that not only had their hotel bookings dropped by 25% in 1974 compared to the previous year, but also that the occupancy rates of most of the hotels had decreased by 25%. For a country which crowded its picturesque coastline with hotels for holiday makers on package tours, the future outlook is definitely gloomy. O.E.C.D's Tourism Committee report which has been just published states that after the slower rate of expansion of international tourist traffic in 1973 there was a sharp decline in the first half of 1974 and this together with the uncertainty caused by the rising rate of inflation, the energy crisis, the slower rate of economic growth and the deterioration in countries' balance of payments are creating a new situation for tourism.

The Committee comments that in the present situation the governments (of O.E.C.D. countries) should review their tourism forecasts taking into account all factors making up domestic and international demand as well as increased competition that will develop on the international tourism market. Further development of accommodation and other tourist facilities may now need to be on a more selective basis to ensure maximum profitability.

The Ceylon Tourist Board has in the meantime announced an expansion programme aimed at a further increase of room capacity by 60%.

CRA — Only half utilised

A total of Rs. 80.7 million had been credited to Convertible Rupee Accounts up to the end of June last year, according to latest available Central Bank figures. Of the Rs. 80.7 million only Rs. 43.5 million had been utilized as at June 30, 1974.

Gem exporters had to their credit Rs. 60.3 million, just over three-fourths of the entire C.R.A. held. Of the Rs. 43.5 million debited for payment—Rs. 36 million was used for imports; Rs. 6.6 million for travel and Rs. 760,000 for local expenses.

Paper Production

The country's second paper mill being set up at Embilipitiya will be further expanded following the gesture on behalf of his government by the West German Deputy Minister, Mr. Alwin Brueck who visited Sri Lanka recently. Mr. Brueck visited the site at Embilipitiya where this mill is being set up with West German assistance. During his visit he announced that the West German Government had agreed to provide an additional DM 12 million for the expansion of this project.

The Embilipitiya mill will be the country's second pulp and paper project and has a rated annual capacity of 15,000 tons of low basis weight writing and printing paper. It is based on 80% usage of indigenous raw materials such as paddy straw, kenaf and other woody materials. The estimated cost of the project is Rs. 300 million with a foreign exchange component of Rs. 136 million. An Agreement between Kreditantsalt fur Wiederaufbau (KFW) of the Federal Republic of Germany and the Government of Sri Lanka for a loan of DM 37.5 million to finance the foreign exchange component of the project was concluded in March, 1973. The DM 12 million now offered will help to further finance the foreign exchange component of this project.

The Eastern Paper Mills Corporation has plans also to set up a third paper mill. Rajangana has been selected tentatively as a suitable site for this mill which would produce "Industrial" types of paper such as newsprint and kraft paper. In view of the widespread inflation and consequent escalation in plant costs, this project is being re-evaluated with a view to deciding on the scale of the project.

Small-scale projects

Meanwhile, nearly 20 small-scale projects for the manufacture of paper-board, with paddy straw as the basic raw material, are being set up in various paddy growing areas of the country.

Two projects have been set up by the Industrial Development Board at Kotmale and Piliyandala; two others by the Sri Lanka Industrial Company (a subsidiary of the IDB) at Mahiyangana and Gampaha and others are to be sited at Divulapitiya, Tissamaharama, Beliatta, Kamburupitiya, Devinuwara, Kekirawa, Polonnaruwa, Attanagalla, Kurunegala, Laggala, Katugampola and Kottawa, most of them to be operated by District Development Councils. A small-scale factory of the type envisaged for each of these areas could produce upto half a ton of strawboard a day on an eight-hour shift.

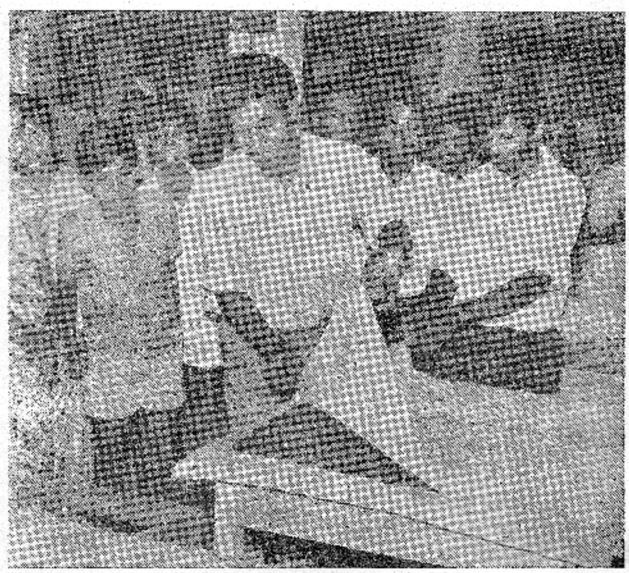
Another crisis on the way

Plans for the rapid development of the local paper industry become all the more relevant when FAO and UNDP specialists see another major commodity crisis, as overwhelming as food and fuel crises, in the pulp and paper crisis that lies ahead. A recent FAO/UNDP study has called for a concerted drive to promote paper and pulp industries in the developing countries, if current shortages are not to assume crisis proportions by the end of the 1970's. The Study reports that by 1978 the world will be faced with a paper and paperboard deficit of some 16.1 million metric tons, more than ten times 1974 's deficit.

The hardest to be hit in the supply and demand squeeze will be the developing countries which are already finding it difficult to obtain newsprint even at two or three times the prices prevalent two years ago. Already, in many developing countries, newsprint shortages have led to thinner newspapers and shorter school terms.

Dr. R. L. Bhargava, an Indian paper industrialist who conducted the study for UNDP, sees no immediate improvement in the situation for either the industrialized or the developing world.

STRAW BOARD



Demonstrating the semi-mechanised process of paper board manufacture at the most recently opened straw board factory at Bemmulla, Attanagalla.

Reconstitution of National Science Council

A new bill to set up a re-constituted National Science Council has been gazetted. It aims to set up a more viable Council with emphasis on specific functions. This bill will help to enlarge the scope of the Council and is intended to involve more scientists and technologists in its functioning and to make it the central forum in developing Government policy in this field. The size of the main Council will be reduced from 21 members to 12. The Minister of Industries & Scientific Affairs, however, will be empowered to appoint 7 to 8 "expert" working groups comprising specialists in the various fields of science. They will advise on policy and promotion and development of science and technology. These groups will cover fields such as Physical Sciences, Agriculture and Forestry, Medicine and Veterinary Science, Natural Sciences and Social Sciences.

Vegetables—High Price for the Consumer Low Price for the Producer

Urban consumers of vegetables in cities such as Colombo, Matara and Puttalam pay as much as eight times for their vegetables as what the producer is paid in vegetable growing areas such as Welimada. This has been revealed in a survey carried out by "*Economic Review*" in the principal vegetable marketing town of Welimada.

The prices at which the producer sells at Welimada on one random date (January 21st. 1975) for common vegetables such as Beans, Cabbage and Knolkhol are as follows. The consumers' prices for the same period in Colombo, Matara and Puttalam are also shown.

Producer's Price		Consumer's Price		
		Colombo	Matara	Puttalam
Cabbage	cts. 12-16	50-80	85 - 1.30	1.00 - 1.25
Beans	cts. 30-45	80-95	1.00 - 1.25	1.10 - 1.35
Knolkhol	cts. 10-20	40-55	60 - 85	75 - 90

Both the producer and consumer get a very raw deal out of the situation. In the case of the vegetable grower low prices unfairly fixed by middlemen are only one aspect of the vegetable grower's pains. Over the last two years his cost of fertilizer has gone up four fold from Rs. 12.50 to Rs. 50/-, while his transport charges have also trebled over the last two years.

It is possible for a cultivator in the Welimada region to raise nearly 15,000 pounds of cabbage from an acre, but under prevailing prices of inputs unless he gets 20 cents on a pound, his efforts are not worthwhile, as with even this price he will get a net income of only Rs. 400/- for the entire quantity. The prices at which the produce was sold this season was often below this figure of 20 cents.

The survey also reveals that one important factor in the low pricing is the low bargaining position of the cultivator with respect to the middleman. Often the cultivator lives in a remote village and he has to bring his vegetable over difficult terrain for disposal at the fair. Even if he does not obtain a fair price from the traders, he has to dispose of it, as vegetables are perishable and transporting it back would be unthinkable. The constant complaint made by the cultivator and checked by our investigators and found to be true was various underhand devices adopted by the traders. Often produce was weighed to the disadvantage of the producer; also the producer is charged for a loss of up to 15 pounds of weight in transporting the produce to Colombo although in actuality transport losses due to dehydration do not amount to more than 3 pounds. The traders almost invariably operate in a ring and artificially help to put the prices down.

The Marketing Department and Co-operatives have their purchasing agents in the area, but their prices are often lower than the private traders and further they do not provide institutional and personal assistance provided by the traders. The table below gives the prices paid by the Co-operatives on the day the private traders' prices quoted above were taken.

Cabbage	12 cts.
Beans	40 cts.
Knolkhol	25 cts.
Raddish	10 cts.

Another interesting feature of the relationship of the middleman who exploits both the producer and the consumer is that at times of a glut the prices to the producer go down heavily, though for the consumer the fluctuations in prices are not so great.

The survey is now being continued in Colombo and other regions to isolate the exact mechanisms by which the exploitation is being carried out.

The 'Ideal' Farm Allotment

The maximum allotment of land to a farmer in the Dry Zone of Sri Lanka should be between 2 to 3 acres, if this land is to be utilized to the best advantage. This is the conclusion that has been reached following experiments carried out by the Mahaweli Development Board.

In its experimentation programme the Board decided that each farmer should have either a block of paddy land or a block of well drained land. Two pilot projects each on a 100-acre block were begun at Maha Illuppalama and at Pelvehera. In the Maha Illuppalama farm a farmer was allotted a 5-acre block of land while a farmer at Pelvehera was given a 2½-acre block. Each farmer was given sufficient money to build a house for himself or he was provided with one. This experiment which was conducted to determine income levels, showed that farmers at Maha Illuppalama were unable to make optimum use of their 5-acre block of land, whereas the Pelvehera farmer was able to earn substantial profits from their 2½-acre block. When the size of the blocks at Maha Illuppalama was reduced the farmers were able to increase their earnings.

This experiment also revealed that a farmer could earn, depending on his efforts, a monthly income ranging between Rs. 300/- and Rs. 1000/-.

The Mahaweli Development Board has therefore decided that under Stage II of the Mahaweli Ganga Development Project each farmer would be given three acres of land, which could support paddy, while well drained land would be given to farmers in two-acre blocks.

Stage II of this project involves the agricultural development of about 70,000 acres of new land, with the settlement of about 25,000 farmer families on the new lands. The total cost of this stage of development of the project is estimated to be about Rs. 650 million.

Protein for the Millions

Scientists who have been experimenting with obtaining food from unconventional sources may have found one solution to the problem of protein deficiency in developing countries in "Leaf Protein Concentrate" (LPC). These results could well be used in the rural areas in Sri Lanka, specially by such organisations as the District Development Councils.

Experiments have revealed that green leaves, which are found in abundance in most parts of the world, could be processed to provide this highly nutritious human food. Any leaves of leguminous plants such as alfalfa, clover, peas, groundnuts, beans etc., cereals like sorghum, maize, millet, grasses or vegetables, aquatic weeds and other agricultural waste products could be used to obtain Leaf Protein Concentrate.

The process of protein extraction is a simple one and lends itself ideally to cottage industry. Machines for this purpose have been developed in Britain, U.S.A. and Hungary and Nigerians have adopted the "Posho" mill (see illustration) used in villages for grinding corn and beans. It has been found that the hammer mill and press gives the maximum protein from leaves. Experiments have revealed that green leaves processed mechanically with small scale technology is capable of producing a yield of over 2000 lbs of crude protein per acre. This compares with 700 lbs for soya beans and 175 lbs for rice.

To extract the protein, the leaves are first pulped to disintegrate the tissues (the more cell walls are ruptured the greater the protein yield) and then pressed for juice using some kind of press. This juice contains most of the protein. The extracted leaf juice is then heated at a temperature of 70-75°C or the pH factor is adjusted to about 40 to coagulate the protein. This is then separated and dried to give Leaf Protein Concentrate. To obtain the maximum protein content the residue is repulped and processed again. To make Leaf Protein Concentrate more appetising the coagulation is washed and pressed to remove some of the non-protein solids, and dried to a green powder.

In addition to a high N content Leaf Protein Concentrate contains more lysine than the best grades of corn, more methionine than soyabean and an amino acid pattern similar to that of high quality protein. It also has 3-8% fatty acids and B-carotene, vitamin B_2, xanthophyll and iron.

Leaf Protein Concentrate is an effective treatment for Kwashiorkor and experiments have proved that it could be cured by the regular use of LPC for 5 weeks. Tests have shown that used as a condiment LPC supplemented foods were acceptable to everyone.

The "Posho" mill as used in villages for grinding corn and beans.

Another Competitor for Natural Rubber

It has been reported that an Austrian Company specialising in polyurethane technology has been successful in making plastic tyres. These plastic tyres are considered to be longer lasting than the tyres made of natural rubber and the producers claim that even when deflated the tyres retain their original shape.

The plastic tyres which are produced using polyurethane having a high elasticity and a high tensile strength, weighs about 2/3 that of an ordinary tyre and its cohesive quality reduces possibilities of skidding. Large scale production is capable of achieving a considerable reduction in costs as well.

Because of its longer lasting qualities, lightness, and tendency to reduce motor accidents and low costs it is expected that the large scale production of plastic tyres will pose a threat to rubber tyres as well as to natural rubber.

Improving Mud Houses

A method of reinforcing wattle and daub houses has been introduced in the Kwango area of Zaire in Africa. This method is considered suitable for adapting in similar areas of Africa, South America and Asia. It is designed to make existing mud houses semi-permanent in areas where the price of cement, poor transport facilities etc. make more expensive methods impracticable. Whereas the average life of a mud house is only five years, the first houses on which this method was used are still standing after 17 years. The method involves strengthening the base of the outer walls (which is the first thing to deteriorate in the wattle and daub houses) and adding a coat of plaster to the walls. It takes about three weeks for an average house 8m×5m to be built.

Manioc Biscuits

Biscuits made from Cassava (Manioc) flour are being marketed by a manufacturer in Mauritius. These biscuits are available in four flavours — milk, butter, coconut and chocolate. They are reported to have been manufactured since 1870 by a family concern using home-grown cassava and are now sold under the name *Biscuits de Manioc, Mauritius*.

New Management trends in Corporations

Hitherto management know-how for Sri Lanka corporations has been transferred from largely Western countries by means of pre-packaged management courses and seminars. As these packages had grown up in a social milieu different from that of Sri Lanka very often the "advanced management know-how" transmitted could not be used or properly utilised. Within the last few months the National Institute of Management has been involved in new activities which perhaps unconsciously promise new forms of organisation arising from the Sri Lanka context itself. It is also interesting that some of the results that have occurred as a consequence of these experiments are reminiscent of much of the *avantgarde* work being done in other countries.

One such experiment referred to occurred in the Thulhiriya Textile Plant where approximately 80 persons—mostly highly educated workers with G.C.E. (Ordinary Level) and above, plus a few executives were chosen as a part of the exercise. They were given duty leave for the entire period of the experiment which has now lasted several weeks. In addition to lectures on society and economy given by University personnel to this target group, they were exposed to a session where the entire managerial function was thrown to the group as a whole. The group was requested to sub-divide itself into sub-groups according to any problems that they wished pursued. Some of the points raised by the large 80-member group, like changes in organisational personnel were considered to be yet outside the purview of self-management.

There were six sub-groups which chose their individual problems to be tackled. One group wanted to put up a housing scheme, a second wished to increase the living conditions of employees by a new salary structure. A third group wanted to use scrap material. A fourth group wanted to run the canteen. A fifth to make doffin boxes and a sixth to run the pre-spinning section on an entirely self-managed basis.

Self Management

Each sub-group decided initially on some preliminary schemes. Thus the housing group wanted to put up a housing scheme and the living conditions group introduced a detailed salary structure. The doffin boxes group produced plans to make a doffin box at Rs. 17.50 as opposed to the contractors' price of Rs. 75/-. The most interesting suggestion was from the self-management group which wanted to be given only the resources for production like materials, machines and maintenance, whilst the group undertook to do their total labour management function. They also suggested that they would do away with clocking of times, as well as leave chits etc. The feeling of the group was that flexibility was to be allowed in these matters and that the group itself would control any members who were habitual late comers or absentees.

Another feature that arose from the working of the groups was that the democratically structured groups (they chose their own leaders) saw the need for specialised knowledge which was not possessed by the group. Thus the housing scheme group soon realised the need for an indepth civil engineering knowledge, as well as that of surveying to scientifically and economically construct the housing scheme. The result was that the group now began to use the technical personnel available in the Corporation like engineers and accountants as resource personnel.

The doffin boxes group after some confusion on the part of management, produced cheaper doffin boxes and the scrap group cleared the mountain of scrap in the region. The self management group however disintegrated because their scheme of flexible hours without time cards and leave chits was considered too strong a departure by management. Also when the question of what to do with absentees, discipline and hours of work in concrete terms arose, this group could not come to a very definitive decision.

The Thulhiriya experiment, although it has given mixed results because of the unpreparedness of both workers and management to some of the problems of self-management has inadvertently given rise to two important results which are path breaking even in the international management field. For instance, the housing group's decision to use technical personnel as resource material is very similar to the new thinking in the Western world on organisation that has come under the loose heading of "Post Industrial Management". These recent techniques have emphasised that the earlier hierarchical organisation is not functional in times of change and innovation and have recommended so-called open system designs where there is direct interaction of the average employee on the problems of the organisation.

These systems also have similarities to organisations in China where cadres and specially the three-in-one committees (cadres, technicians and ordinary workers) since the Cultural Revolution interact directly with the environment and use technical know-how as resource material.

The Kaiya

The Thulbiriya self-management group's request for flexible hours of time also finds an echo in the flex-time concept which has been increasingly adopted within the last three years or so in the Western countries. It has also echoes to our traditional forms of collective organisation, for instance the *Kaiya*, where a tightly structured time system did not exist, but the time as well as other productive factors were controlled by the members of the *Kaiya* collectively.

The results of the experiment at Thulhiriya are at the moment still mixed but its great significance lies in that an attempt has been made firstly to trust workers and secondly to evolve new forms of organisational control suited for the country.

International

In 1974 the international banking community suffered several shocks, and it is only now that bankers are gradually recovering from them. The most serious were the bank failures in U. S. A. and Germany, and of these, the failure of Herstatt Bank—a privately-owned bank in West Germany—was the most spectacular. These failures, and particularly the inability of Herstatt to meet its commitments even on some "spot" foreign exchange transactions, came as a great surprise to international bankers. Until then they had been used to the idea that only banks in countries having balance-of-payments deficits or unsettled political conditions were potential defaulters in their commitments. Established banks in economically and financially strong countries were considered safe risks, even in transactions involving very large sums and fairly long periods. The Herstatt experience calls for a revision of this view.

It is now generally agreed that the root cause of these failures was the unprecedented 'floating' of exchange rates of almost all the internationally traded currencies. Fixed exchange rates had for long been considered to be an essential pre-requisite for stability in international transactions, but one after another, leading currencies were forced to abandon fixed parities and adopt floating rates. The U. S. dollar held out for some time longer than others, and its capitulation in March 1973 signalled the end of an era in the international monetary field.

This general adoption of floating exchange rates created an extremely fluid situation in international currency markets. It also provided great opportunities to speculators and presented equally great risks to banks and other legitimate operators in these markets. Buying and selling foreign currencies under high pressure has always been a specialised and risky business, and in the banks this was the preserve of exchange dealers who were acknowledged experts in their field. With 'floating' exchange rates, the risks attendant on 'dealing' vastly increased, calling for even sharper skills than before. At the same time the prospect of large speculative profits also increased, and 1974 saw several banks, including two large international banks, come to grief as a result of their dealers being unable to resist the temptation to speculate in a big way. While the smaller banks found the shock fatal, the two international banks were strong enough to withstand it by absorbing the losses.

Even so, these spectacular events shook the international banking system, and for a time bankers nervously looked around to see who will fall next. Fortunately, as always in banking, the lesson was quickly learnt, and the banking community with the assistance of Governments was able to put together various devices to successfully tackle the new problems.

The basic cause of these upheavals lay in the freedom which international bankers traditionally had in their operations. This freedom was guaranteed by the laissez-faire doctrine that equilibrium in international transactions can best be achieved by allowing market forces to have free play. The disastrous events of 1973/74 have caused a recognition of the dangers of this doctrine, and without openly repudiating it, Central Banks and Governments have proceeded to systematically curtail this freedom.

Fortunately for us, in the developing world, we have always been too poor, particularly in foreign exchange resources, to be able to afford the luxury of the freedom of action so cherished by bankers and businessmen in the West. Exchange control is a permanent fact of life with us, and this meant that the scope for speculative deals in foreign exchange has been totally absent. This has spared us here in Sri Lanka from the risks to which the Western countries have been exposed in recent years. Thus, the defaulting potential of banks in developing countries may have been somewhat exaggerated, after all.

Sri Lanka Finance Companies

For some time now there have been suggestions that some action must be taken by Government to regulate the activities of our Finance Companies. The point has been well made that they are an aberration in a planned economy tending to disturb, and to some extent neutralise, the Government's efforts at directing the development of the economy towards pre-determined objectives. The discussion on this subject increased in the period of the run-up to the last Budget, and it was expected that the Budget proposals would contain some measures to bring the Finance Companies within the ambit of the Government's regulatory powers. In the event, the Budget proposals were disappointing in that they contained only a withholding tax on interest paid by Finance Companies.

The implications of this measure were quite naturally exaggerated as part of the build-up against the so-called expropriatory character of the Budget proposals. In fact, however, it was no more than an advance collection of Income Tax very similar to the long-standing deduction at source of tax on dividend income.

Some meaningful and effective regulation of the activities of Finance Companies is urgently needed in the interests of an effective control over national economic activity. In the first place, the uncontrolled operations of Finance Companies have a distinctly inflationary impact on the economy. While the Central Bank imposes credit restrictions on the commercial banks with a view to containing inflationary pressures and directing resources to priority areas, the Finance Companies carry on their lending unabated, most of the time financing precisely those areas which the Central Bank wants to be starved of credit.

Another consequence of these activities is the disturbance of interest rate structures. Being unable to attract deposits as easily as the banks, they have to offer very high interest rates in order to get deposits. By this means they attract money that might otherwise have gone into the banking system, and also compel the less liquid banks to offer high interest rates (by bank standards) in order to retain at least some of their deposits.

The high cost at which Finance Companies get their funds lead them to charge a high price for the funds they lend out, and it is not unusual for the effective rate to the borrower to be between 25 and 30 per cent. Naturally, this high cost of funds in turn increases the production costs of the borrowing entrepreneur, who in turn adds it to the market price of his product. By this means the inflationary pressures in the economy are further aggravated.

There is, of course, no doubt that by and large Finance Companies play a useful role so long as there is a place for private enterprise in the economy. Their borrowers are mostly sub-standard, and are willing to pay the high price because they have no alternative source of funds. It is, therefore, not desirable to eliminate this source. What needs to be done is to regulate it.

This can be done by bringing them within the purview of the Central Bank's authority by a suitable amendment to the Monetary Law Act. They could then be required to maintain certain reserves with the Central Bank and would also be subject to the Central Bank's regulatory and supervisory authority including the scrutiny and direction of their lending portfolios. They can then be brought within the ambit of the credit restrictions and effectively prevented from introducing distortions into the economy.

The Central Bank's regulatory authority will also help to provide the much needed stability to the Finance Companies by ensuring that they take balanced risks. This in turn will help to protect depositors.

In U. K. and elsewhere in the West "secondary-banks" which are the counterparts of our Finance Companies, have been causing considerable concern. The central banks and commercial banks have realised that the failure of any of the "secondary-banks" may result in loss of confidence in banks proper, and have taken concerted action to help those in difficulty. From that they have moved on to a position of control to ensure that the "secondary-banks" adopt safe business practices which will prevent them from getting into difficulties.

Here in Sri Lanka, where the Government wants the economy to develop in a particular direction, there is a very strong case for regulating the activities of our own "secondary-banks", and amendment to the Monetary Law Act providing such regulations is therefore an urgent need.

FOREIGN AID

In mid March at a panel discussion organised by the Sri Lanka Association for the Advancement of Science, a Professor of Engineering of the University of Sri Lanka made what must be one of the most patriotic and constructive solutions to the problems of the brain drain. His simplistic and naive suggestion was that the education system of Sri Lanka should be geared to the requirements of the Western countries so that those trained at considerable expense to the country would find steady jobs abroad.

On a more serious and reasoned level, a study published by UNCTAD the same week shows the full dimensions of the brain drain problem. According to this study which has quantified the inflow of trained personnel of the Third World into the U.S., the full extent of Third World aid flows into the U.S. is revealed in the clearest possible terms.

In 1970, according to this study, 11,236 skilled people left the developing countries and settled in the U.S. Asia accounted for over 75% of the emigrants, over 3,000 going from India alone. Roughly half of the number were engineers, approximately one sixth doctors and natural scientists, respectively.

If one takes the income earned as an indicator for their value to society, doctors top the list. They are expected to earn an average of $646,000 each during their professional life in the United States, as compared with $44,000 in their respective home countries. Engineers, natural and social scientists are judged to earn sizeably less, between $ 253,000 and $ 230,000. For engineers and social scientists, this still amounts to about ten times the sum they can expect to earn at home. What represents a gain for the individual is a loss for the society.

In 1970 alone the total income transferred to the U. S. by this brain drain amounted to 3.7 billion dollars. In contrast the total official development assistance (largely consisting in reality of loans) by the U. S. to developing countries amounted to only 3.1 billion dollars. In this context India was one of the biggest aid donors and U. S. one of the biggest recipient countries. Development aid of this form to the U. S. is seen in stronger light when compared with other relevant magnitudes. For example, it amounted to nearly 14% of total U. S. expenditure on research and development and about 38% of U. S. current expenditure on higher education. In 1970 alone it was roughly one eighth of the total U. S. assistance to post war Europe in the form of the Marshall Plan Aid. Lastly, the figure was equivalent to over 0.3% of the U. S. gross domestic product.

It is interesting to point out that this study indicating reverse aid flows to the West is in keeping with studies on the Latin American context on capital inflows. These have shown that instead of there being net capital inflows from the U. S. into Latin American countries as propenents of allowing 'free' capital movement would believe, there is on the contrary, a net outflow of capital from these countries to the U. S. for every quantum of capital received.

INDIAN OCEAN REGION

There have been signs of a possible thaw in the conflict between the two giants in the region, China and India. Observers predict that the visit of the Chinese table tennis team to Calcutta might be the beginning of moves to normalise relations.

The visit of President Bhutto to Washington, produced the lifting of the embargo on arms supply to Pakistan. The embargo was placed during the Bangladesh war in 1971. U. S. and Chinese arms since that date to Pakistan have totalled $225 million, and Soviet sales to India of advanced weaponry amount to $1200 million. U. S. supply of arms to Pakistan raised protests in India where Foreign Minister Chavan cancelled a visit to Washington. Observers feel that the U. S. will balance the situation by increasing food aid to India.

The heightening armaments race is increasing the instability in the region, while the precarious situation in Bangladesh is no help.

Pakistan's move to obtain arms has been hastened by the increasing strength of India in consolidating power in Kashmir through the return of Sheik Abdullah, the "Lion of Kashmir" as Chief Minister. The increasing influence of the Soviet Union in Afghanistan is also apparently adding to Pakistan's insecurity in the light of the close Indo-Soviet relationships.

Further South, in Singapore, Foreign Minister Rajaratnam is visiting China and it is possible that diplomatic arrangements for recognition would be the result. This would leave Indonesia as the only country in the entire region to avoid a closer relationship with China.

Closer home, in the Maldives, Prime Minister Zaki has been deposed. He was known to be very keen on developing relationships between his country and Sri Lanka. It seems clear, however, that the historical and linguistic ties between the two nations will continue regardless of the change in regime.

The Maldives coup was matched on the western side by the changes in Madagascar. Colonel Andriamanzato who took over after the assassination of Colonel Ratsimandrara, is known to be opposed to the establishment of foreign bases in the region. At least this should provide a respite to the worsening military situation developing in the Eastern and Southern parts of the Indian Ocean. All these recent developments in the region make it clear that Diego Garcia is perhaps only a beginning. The demand for a neutral Indian Ocean remains more urgent than ever before.

CAMBODIA

The siege of Phnom Penh by the forces of the Royal Government of the National Union of Cambodia has brought defeat closer to the American imposed regime of Marshal Lon Nol. The people's army led by Khieu Samphan has succeeded in isolating Phnom Penh and cutting off the Mekong River supply line from South Vietnam. The result has been a massive airlift of ammunition and food to the besieged capital by U. S. aircraft. D. C. 8 and C. 130 aircraft have been ferrying 45 tons a time of ammunition to Pochentnoy airport which is within the reach of the rockets of the Samphan/Sihanouk led forces. It is estimated that the present airlift is not enough to keep the Lon Nol regime going for long and foreign nationals have been advised to leave the capital. The Lonnolites hope to hold out till the rainy season which begins in June, so that the Mekong floods make it once again possible to open the water route from South Vietnam. In the meantime leading members of the Lon Nol government, including Lon Nol himself, his Prime Minister Long Boret and his brother Lon Non are leaving Phnom Penh. They, presumably under American pressure, are desperately trying to find a way out of their deteriorating situation.

The strategy of the Samphan attack seems to be not to take the capital by military manoeuvres but rather to use political slogans and appeals to the people of the city. It is a continuation of Giap's theory of People's War, "confronted by an aggressor enemy with powerful armed forces we could not rely on our armed forces to defeat him but rather have to rely on the forces of all the people".

Meanwhile, President Ford has asked the U. S. Congress for a $300 million to Thieu in South Vietnam. Congress has so far not approved these votes, but it is likely that a compromise figure will be reached. At the same time Norodom Sihanouk has offered to negotiate with the U. S. A. Though the Americans have not responded to this offer the fall of Phnom Penh, Western observers feel, is only a matter of time. The fall of Phnom Penh will result in Cambodia coming under the control of the patriotic forces and further weakening of the Thieu regime in South Vietnam.

AFRICA

The Lome Convention signed in Togo on February 28th between the EEC, African, Caribbean and South Pacific countries grants access to the latter's industrial goods on a duty free basis, to the EEC. Similarly 96% of duties on farm products are waived. The agreement also creates a stabilisation fund to compensate the exporting countries from a fall in market prices. The agreement reflects the keen and sustained efforts by the EEC to retain and expand its economic relationship with Africa against the increasing competition from the U. S. A. and U. S. S. R. The European countries have the initial advantage of the historical colonial connections in the regions and apparently plan to exploit the linguistic and artificial cultural connections to their maximum economic benefit. The attempt by the African countries to retain some equity in their trade balances has been so far unsuccessful. For instance, Gabon has attempted to maintain minimum prices for its timber without avail. Similarly Cameroon's attempt to maintain cocoa prices has also failed despite the 1972 International Cocoa Agreement, since the U. S. A. has refused to sign the agreement. Despite massive increase in the production and export of commodities like cocoa the total export revenue has been failing, stretching the unequal exchange to unbearable limits.

The Lome Convention, though coming within the ambit of the usual neocolonial agreements to some extent reflects the minor advantages gained by the combined bargaining position of the Afro-Caribbean countries and the new mood of militancy in the Third World.

ETHIOPIA

The Military Dergue in Ethiopia which overthrew Haile Selassie, King of Kings and Lion of Judah announced last month that it was nationalising 101 foreign companies. This follows its declaration of introducing land reforms through a policy of "land to the tiller". The regime, however, is faced with two major problems. The province of Eritrea which has resisted the central government and is controlled by the Eritrean Liberation Front has stepped up its separatist activities. The coup that led to the overthrow of Selassie was led by an Eritrean, Col. Andom who was assassinated soon afterwards. Last month 20,000 Government troops faced 6,000 ELF fighters in the province's capital Asmara. The continuous bombardment of Asmara by Ethiopian aircraft has resulted in nearly 2,000 deaths. The ELF has retaliated by blowing up bridges and destroying Ethiopian army columns in combat. The ELF is backed by a group of Arab States in the Gulf and also the Soviet Union. The predominantly Muslim province has demanded negotiation but the Ethiopian Government refused discussions and opened the attack. American aid to the Ethiopian Government continues as before. The Dergue fears a Somali invasion from the East if Eritrean forces continue in this fashion. But the basic reason for refusing autonomy is that Eritrea gives Ethiopia its only access to the Sea. This is complicated by the fact that the U. S. A. and Israel oppose the ELF, since they fear another pro Arab regime on the Red Sea Coast. The solution to the problem is delayed due to the Big Power interests in the region.

The young regime is also faced with the problem of famine that has hit the country once again. The situation in the Ogaden Province is considered serious and failure to solve this problem will result in further difficulties for the regime which is attempting to modernise a feudal country.

LATIN AMERICA

The new U. S. Trade Act ratified by the U. S. President on January 3 has aroused the anger and opposition of many Latin American countries. Mexico, Venezuela, Brazil, Panama, Colombia and Costa Rica have voiced their protest through the Permanent Council of the Organisation of American States. The Act stops preferential trade treatment for countries belonging to OPEC, countries who have formed cartels of primary producing countries in order to improve raw material prices and countries which have nationalised U. S. property. The Act specially affects Latin America which region has ever since the Monroe Doctrine been developed as a back-yard for American enterprise. Many industrial sectors in Latin America are still controlled by U. S. interests and direct U. S. investment in the area alone totals $ 20,000 million. The very unequal nature of Latin America-Western multi-nationals relationship has resulted in Argentina's President Isable Peron accusing U. S. Government and West Germany's Siemens of fraudulent practices, which resulted in Government cancellation of the latter's contracts totalling $ 240 million.

Despite the failure of the Allende administration to withstand U. S. interference the general tendency among Latin American countries to nationalise oil, minerals, electricity and other basic industries is gaining momentum in countries like Peru, Venezuela and Ecuador. The attempts by Latin American countries to gain a measure of control over their natural resources is also focussed round the 200 mile economic zone demanded by littoral states. This would preserve the living and mineral resources of the sea and seabed for the poorer countries. The measure, however, is opposed by both the U. S. A. and the U. S. S. R. The failure to receive support from the superpowers resulted in the failure to resolve this issue at the Law of the Sea Conference held in Caracas, Venezuela last year.

ALGERIA

At the first Summit Conference of the OPEC Heads of State held last month, the OPEC countries came up with proposals to help Third World needs for fertilizer. The OPEC leaders agreed in Algiers to contribute 300 million dollars to build between 5 to 10 plants producing nitrogenous fertilizer. The total annual output aimed at is 1.5 m. tons which is equivalent to 10% of all fertilizer imports of the Third World from the West.

This output will constitute a Fertilizer Fund from which OPEC countries will sell to needy nations at prices covering only raw material and operating costs. At this conference, the Algerians suggested that the oil producers should also pay for delivery costs. This seemed unlikely.

During the last three years fertilizer prices have quadrupled and consequently have hit countries like Sri Lanka very badly. At the ECAFE Conference held in Sri Lanka last year there was a call by Sri Lanka for a World Fertilizer Fund. The proposed OPEC facility seems to be very much like this demand come true.

COMMODITIES

TEA

Bid for Floor Prices

One of the main considerations at the meeting of the F. A. O. working party of tea exporters being held in Rome early in April will be a proposal for minimum export price for tea. This working party will work out a general strategy for implementing a floor price scheme which will be presented at the 8th Annual Session of the F.A.O.'s exporter/buyer committee on tea to be held from June 24th to July 3rd either in Colombo or Rome. A report from Calcutta states "producing countries may agree in principle to press for a minimum price for export tea. Whether they will be able to implement this decision will be anybody's guess.

Since tea sold below the minimum price will not be exported, the quantity of tea exports of the producing countries will be affected. The minimum price would have to be a higher price so that inferior quality teas are not exported.

As for inferior quality tea there are bound to be differences among producing countries. It has to be defined. But since the definition of "quality" itself is not foolproof, it will be a hard job at Rome for the producing countries to arrive at satisfactory definition of the term, 'inferior tea'."

Tea Estates Nationalisation in India

The Indian Government has decided to take over the management of 25 tea estates having severe economic difficulties. These would be offered to state sector organisations, co-operatives and private firms to run. These estates are reported to have had liabilities of Rs. 60 million (about £ 3,250,000).

Meanwhile, India's Commerce Minister, Professor D. P. Chattopadhayaa has told Parliament in February that the Indian Government did not believe that nationalisation was the answer to the problems of the tea industry at this stage. "We have studied these problems in depth and we felt that nationalisation is not the answer to the tea industry's problems at this stage" he said, according to a report from New Delhi.

RUBBER

Synthetic Rubber Prices Rise

Synthetic rubber manufacturers are finding it difficult to operate without substantial increases in prices of their products. The most recent case is a leading Japanese synthetic manufacturer Nippon Zeon Co. which announced at the end of February that it was planning to raise its domestic selling price of synthetic rubber, including stylene butadiene rubber and butadiene rubber by 15 to 20 per cent from this April.

Japanese synthetic rubber makers have been holding off new product price hikes since last October, when they raised the prices by 15 per cent, under the administrative guidance of the Trade and Industry Ministry.

Nippon Zeon said the continued rise of material costs including naphtha prices could not be offset because of a fall in the needs from car tyre manufacturers.

News of the prospective 15% to 20% rise in Japanese domestic synthetic rubber prices together with reports of a sizeable cut back in synthetic production in that country had the immediate impact of bringing over steady conditions to the rubber market of the world.

Rubber Producers agree on Buffer Stock and Rationalisation Scheme

Rubber experts from the major producing countries, Indonesia, Malaysia and Thailand agreed at the beginning of March on an international Buffer Stock Scheme to achieve natural rubber price stability. The meeting also agreed that floor and ceiling prices for natural rubber should be introduced. The Rationalisation Scheme is expected to be introduced to back up the Buffer Stock Scheme intended to introduce certain measures in producing countries such as a cut back in tapping, if the buffer stock fails to produce the desired results of stabilising prices.

COCOA

UNCTAD is urging cocoa producing countries to process more of the cocoa output locally instead of exporting raw beans. A study by the UNCTAD Secretariat has suggested that consumer countries should consider introducing regulations to prevent products from being sold as chocolate if they contain more than a specified percentage of cocoa butter substitutes.

The UNCTAD study also suggested that more direct transactions should be arranged between the relatively few large enterprises in the producing and consuming countries.

As far as marketing within producing countries is concerned the report also suggested that :—

1. Governments should ensure that prices received by cocoa producers, usually peasant farmers, are kept stable within a given season.

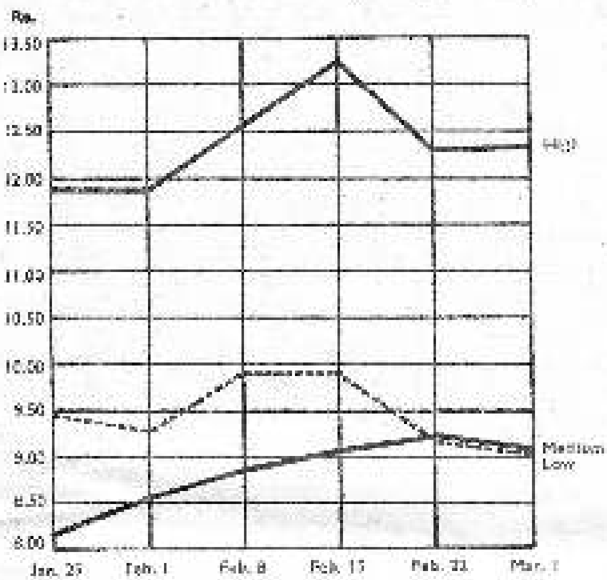
2. Producing countries should consider extending their stock holding capacity, particularly in the main consuming countries.

3. The flow of daily information, on cocoa market trends to the selling agencies inp oducing countries, should be improved.

4. Producing countries should review their internal marketing arrangements to cut costs.

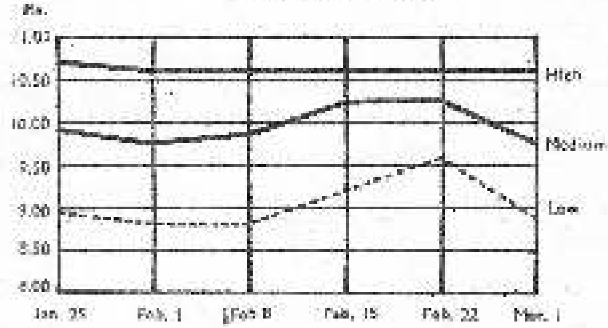
STATISTICS

Tea Prices - Colombo (Rs. per Kilo)

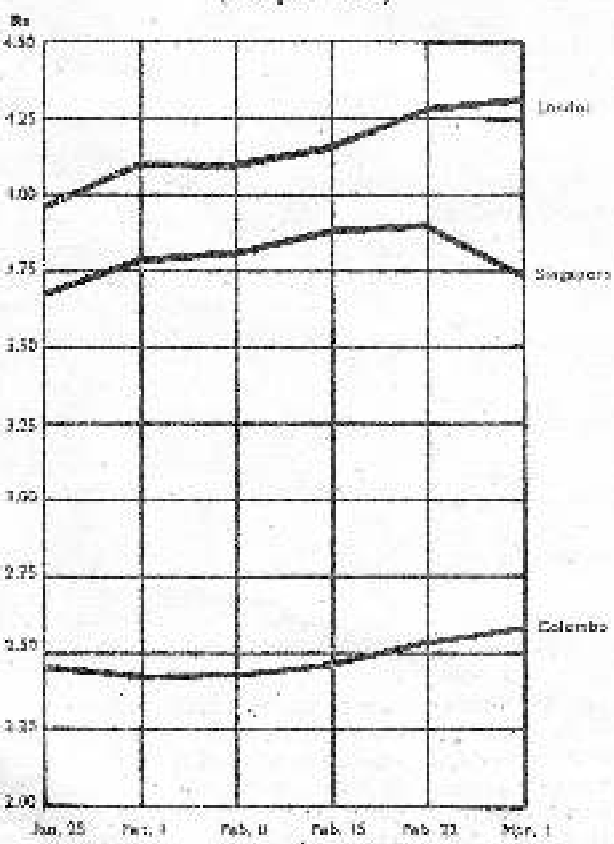


Trends in Commodity Prices for period of 6 weeks January 25 - March 1 1975

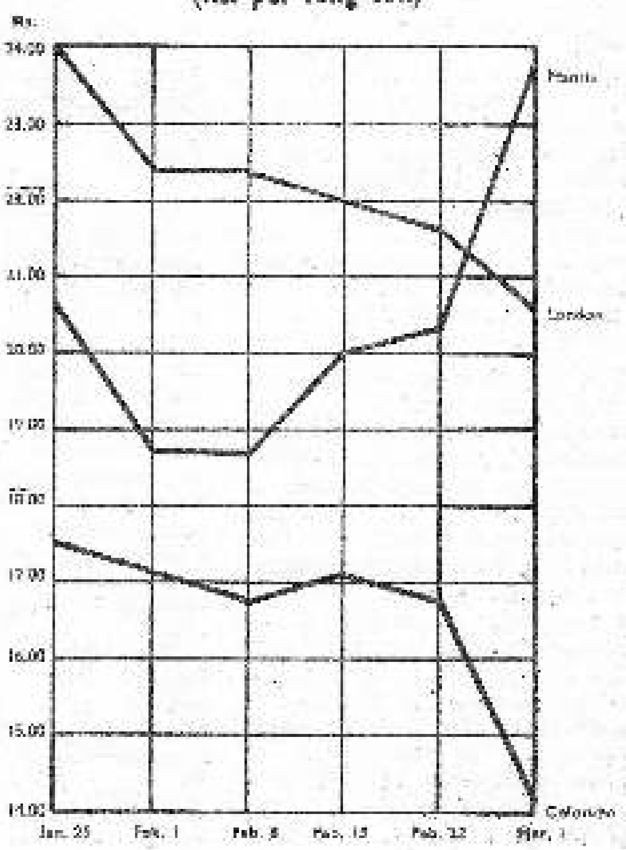
Tea Prices - London (Rs. per Kilo)



Rubber Prices - Colombo - Singapore - London (Rs. per Kilo)



Copra Prices - Colombo - Manila - London (Rs. per long ton)



On Economists and Economizers

G. V. S. de Silva

G. V. S. de Silva is one of the most thought provoking economists of Sri Lanka. He has taught economics at the University of Ceylon and was one of the chief forces behind the first Land Reform Act — the Paddy Lands Act of 1958. His 'Some Heretical Thoughts on Economic Development' published in 1973 evoked wide comment. He participated in a seminar held at Bangkok earlier this year relating to new pathways in economic thinking. In the following article Mr. Silva makes a fundamental reassessment of the position of Economics as a Science. Readers familiar with recent discussions in the field of psychology will find echoes of G. V. S. de Silva's devastating critique in Thomas S. Szasz's critique on psychiatric medicine.

What a terrible confusion the English language is responsible for. Ever since Professor Lionel Robbins succumbed to this linguistic ambiguity and defined economics as the science of economizing, generations of his followers have faithfully echoed this definition which equates economics with good house-keeping, until it has now become enshrined as one of the dogmas of our age.

This limitlessly wide definitional umbrella encompasses and shelters a motley crowd of people who in their different fields of activity are confronted with the universal problem of economizing scarce resources, and who therefore have come to believe that in every rational and calculated choice they make they are behaving like economists. From the simple housewife struggling to make the ends of her budget meet to the sophisticated macro-economic programmer engaged in the allocation of national resources and the determination of investment priorities, lies one continuous chain of 'economists' the links of which include industrial economists, agricultural economists, fishery economists, transport economists, marketing economists, project economists, financial economists and even engineering economists ! What all these diverse individuals are supposed to have in common is that they are all engaged in husbanding scarce resources and maximizing or optimizing something or other. It is as if physics was thought to be the science of physique, and every gymnast, acrobat and weight lifter strutted about imagining himself to be some kind of specialist physicist. For, there is as little connection between economics and economizing as there is between physics and physique, other than the purely linguistic affinity due to the aberrations of the English language.

Political Economy

The older classical economists probably had an inkling of this possible terminological confusion, and they chose to call their science not economics but Political Economy. To them, political economy was one of the social sciences which were primarily concerned with society and social relations. Its special field of inquiry was the relations that exist between men in the sphere of production (*i.e.* the production relations in Society), and the cause and direction of changes in these relations over time. The more discerning of them saw these production relations as the basis of all other social relations, and therefore regarded the science of political economy as the foundation of all the other social sciences. They unravelled the essential differences in the production relations in different forms of society, the cause of changes in these relations, and on the basis of such a profound understanding of social forces were able to indicate the possible direction of social and economic development. What a far cry it is from that wide canvas on which the political economists set out to depict in bold strokes the very basis of the social fabric, to the petty little maximizing and optimizing calculations of today's economizers.

The economizers have not only transformed economics from a science of society to a science of scarcity, but they have even gone further and drained out every atom of social content from that science which not so long ago was regarded as the Queen of the social sciences. For according to them, the problem of scarcity is a universal and perennial one that has confronted all societies in all ages. Hence in studying this problem it is necessary to abstract and ignore the specific types of social formation, in order to arrive at conclusions which are universally valid not only for all societies but even for isolated individuals like Robinson Crusoe who though alone on his desert island would, according to Lionel Robbins, still have had to contend with the 'economic' problem of dividing his time between work and leisure. Thus has a living social science been mutilated beyond recognition and converted into an empty shell of dead universal formulae.

Rationality and Irrationality

The irrationalities of everyday life are a constant source of irritation to rational men. The economizers too who take great pride in their rationality are no exception. They are frequently annoyed with the economic reality around them, and their one endeavour is to squeeze it into their logical mould. Having conceptually removed the problem of economic development from the turbulent and volatile arena of social conflict and placed it in the placid and air-conditioned environment of rational choice and efficient management, they have become infatuated with the super-rationality embodied in a variety of sophisticated techniques (in themselves quite fascinating and instructive exercises) that have been designed to bring some order into this disorderly world of ours. They view national economic problems through the narrow prisms of the market place and the petty parochial world of the individual business enterprise, and make the most pedestrain pronouncements about the solutions to these problems. When these solutions naturally fail, they look for a scapegoat and conveniently find one in the poor politician whom they regard as the source of all irrationality in economic life. He is the man who puts the spanner in the works. If only he would keep his meddlesome hands off, or shed his political clothes and join together with other similarly declothed politicians to look at problems from a rational and not a political view point, then we would have the precondition for the economic development of a country. All that remains to be done is for such an a-political cabinet of able men to be surrounded, supported and sometimes even submerged by a brains trust of systems analysts, project evaluators, progress controllers, financial consultants, management accountants, technocrats and such other supermen who would provide rational solutions to all economic problems.

Surface Phenomena

The trouble with the economizers is that they only see (in fact they are only equipped to see) the illogicalities and irrationalities on the surface of phenomena and not the contradictions that lie at their very roots. They are somewhat like the old classical physicists who shouted 'chaos' and 'anarchy' when they found that an electron, when diffracted, not only strayed from the straight and narrow path that Newtonian mechanics had chalked out for it but did not even have a definite trajectory. But then the quantum physicists came along and discovered a deeper and an incredibly complex rationality in electron behaviour. They found that the electron (and in fact all matter) is a contradictory entity which is both particle and wave. It is this intrinsic duality inherent in the essence of all phenomena that often manifests itself externally as irrationalities which seem thoroughly illogical in terms of formal logic. Unlike the economizer who tilts at the windmills of surface irrationality, the economist must probe deeper and understand the essential duality lying at the heart of economic phenomena in order to be able to resolve the contradictions it gives rise to. This is true economic rationalism, and the conceptual and technical apparatus so laboriously assembled by the economizers is not of much help here.

Mystification

Let us illustrate by taking the question of marketing as an example of how an economic problem could be mystified and misunderstood by looking only at the superficial relations between things and not probing the underlying economic relations between people. Our economizers are justifiably appalled by the primitive internal marketing arrangements in our country, particularly in respect of rural commodities. Surely, they exclaim, it is not beyond the ingenuity of rational men to devise a modern marketing system. So they organize marketing seminars, summon foreign consultants and plan grandiose super markets modelled on what they have seen in foreign countries. But the problem is elsewhere, and lies in the basic conflict between production capital and commercial capital. It appears to be superficially contradictory but is yet essentially true, that the organized development of commerce requires the subordination of commercial capital to production capital. For, so long as commercial capital is the dominant element in this conflict, the producers' interest in organized marketing is made subservient to the big traders' interest in speculative and disorderly marketing which is the source of windfall profits to them. It is instructive to recall from history that the decline of the commercial supremacy of Holland and the rise of England as the ruling trading nation of the world was inseparably linked with the victory of industrial capital over commercial capital in the course of the early development of capitalism in England. The development of marketing, then, is not a system and management problem to be solved by training managers and building supermarkets, but the rather complex social problem of subordinating trade to production and the trader to the producer. This can only be resolved through a process of social conflict, and it is only then that the entire superstructure of a modern marketing system can and will come into existence.

It is indeed a pity that even socialist economic thinking has been considerably blunted by the deadening influence of the economizers. Many socialist economists have been deluded by the claims to universal validity made by the economizers for their concepts and techniques, and have come to believe that they could carry this intellectual baggage along with them into a socialist environment. Their emphasis, accordingly, is more on the techniques for the rational allocation and efficient management of resources in a socialist economy than on the contradictions in production and social relations, which they assume to be basically resolved with the nationalisation of the means of production.

Contradictions and Conflicts

The problems of socialist economics unfortunately are infinitely more complex than this. There are numerous economic contradictions and tremendous social conflicts in a pre-socialist society which are not resolved by the nationalisation of the means of production. At the core of many of these conflicts lies the division of labour which the economizers regard as the well-spring of economic efficiency. It is this division of labour that has generated and perpetuated the conflicts between the town and the countryside, manual and mental activity, managers and the managed, workers and peasants. It is the prime cause of the social subordination of women, the domination of living labour by dead labour (of man by machine), the suppression of the creativity of millions of ordinary people and of bureaucracy, technocracy and all other types of elitism in society. It is inconceivable that the destruction of this perverse and pernicious division of labour is not as essential for socialist society as the "smashing of the bourgeois state apparatus," even though the economizers may shout a thousand protests that it would lead to inefficiency and chaos and would undermine the very foundations of the mighty edifice of modern urban industrialism — (the Trojan horse bequeathed by Capitalism?).

Economism versus Development

There are many fundamental issues of this nature that economists must give their minds to without being inhibited or intimidated by the narrow 'economism' preached by the economizers. These issues primarily concern the direction and strategy of economic development and social evolution, particularly in the developing countries of the world. The energy and economic crises have exposed the fragile, narrow and unstable base on which an alluring superstructure of conspicuous consumption has been built by the so-called developed countries of the West. It would be foolish for the developing countries to try to emulate this model of development which, far from economizing scarce resources, has been responsible for the most wanton waste and destruction of natural resources that the world has ever known. For the developing countries the objective of development is no longer one of providing for the artificially stimulated multiplicity of wants of the few, but of satisfying the basic needs and improving the quality of life of the many. This change of direction, however, is not easy to accomplish. It is in fact the central problem of economic and social development in our age. It is impeded and frustrated at every turn by the existing production relations. To attempt to achieve this shift of direction by merely superimposing any egalitarian system of distribution on the existing mode of production would be self defeating, in that it would only lead to a curtailment of production and hence to less being available for distribution. The relations of production and the system of distribution constitute an inseparable unity which cannot be artificially severed. To change the latter it is necessary to change the former.

Necessary Pre-conditions

The direction of economic development is not an arbitrary one to be chosen at the will and caprice of economizers, but of necessity lies along the path that will successfully resolve the economic contradictions and social conflicts that impede the growth of the productive forces of society. The economic, social and institutional changes that will resolve these conflicts are the necessary pre-condition for development, and they must be carried through to the end even though the economizers may howl that such measures are 'uneconomic' and contrary to what they ideally consider to be the most rational allocation and efficient management of resources. The detailed study of production relations, their contradictions, the social conflicts they generate and the manner of their resolution is therefore the special field of inquiry of the economist. If the science of economics were to free itself from the barren and debilitating embrace of the economizers and become re-invigorated along these lines in keeping with the best traditions of the old political economy, then only would it once again have something useful and sensible to contribute towards the understanding, if not the solution, of social and economic problems.

Standing up to the World: The New Mood in the less Developed Countries

G. K. Helleiner

Relations between the Western and Third World countries have depended upon a tacit acceptance of a dependent role by the Third World. This schema has been increasingly questioned in the light of limited results and the climate of growing economic instability. It is in this context that we reproduce here a paper by Professor G.K. Helleiner read at a conference last year in Sweden on the new changes in the international order and the Third World. G. K. Helleiner is Professor of Economics at the Department of Political Economy, University of Toronto, Canada. He has written and edited many books and articles on international trade and development and related issues.

Relationships between rich nations and poor have entered a distinctly new phase during the 1970's. For all but the poorest of the poor countries, the era in which 'foreign aid' was perceived as the fulcrum for these North-South relationships has ended. Aid never did deserve the relative emphasis it received. The effects upon the less developed countries of the North's activities in the fields of trade, investment, technology and monetary affairs have always been slighted by the 'donor' nations, for whom it was simpler to focus upon the 'soft option.' But the recent stagnation and even decline in the real value of official development assistance and the very limited results achieved in the international community through humanitarian appeals, together with the growing experience, sophistication and expertise of Third World planners and policy-makers have generated a new mood in the less developed countries—a consensus that further gains can and must be extracted from international economic relationships through the use of new instruments. The OPEC experience has not been without influence less in terms of the potential for similar action in other commodity markets than as a demonstration that the shrewd and determined use of new policy instruments and levers of power can be made to work.

There has been no abandonment of 'traditional' demands from the less developed world—for better prices for primary products and market access for manufactures, for the introduction of the aid-SDR link, for the many other reformist 'gimmicks' which have been suggested over the years. Nor has the general rhetoric on the subject of international economic injustice abated at all, as the United Nations special session in April 1974 should have made quite clear. Rather, there has emerged a new determination carefully to analyse and agree upon Third World objectives and priorities and to bargain with sophistication and skill in their pursuit, rather than continuing to plead and advocate on the basis of a 'Wouldn't it be nice if . . .' mentality. This new self-reliant and pragmatic mood in the less developed world happens to have emerged during a period of considerable economic disarray in the developed world. The developed countries seem to be viewing these developments with rather more anxiety than they otherwise might have, in the light of their general nervousness about monetary order, the prospect of a severe recession and the possible breakdown of the post-war consensus on international economic organisation and behaviour.

A 'new mood' can be no more than a beginning, for there are never easy answers to complex questions even when there are new reserves in the form of determination and stiffened backbone upon which to draw. In the belief, however, that the emergence of this new mood constitutes a watershed in the development of economic and political relationships between the world's North and South, and that it creates both new opportunities and new risks, the seminar participants met to discuss them. In a series of discussions on commodity markets and cartels, transnational enterprises, international financial markets, debt relief and international institutions, they sought to analyse—in the words of one participant—'imaginative visions of alternative possibilities for the transfer of resources from the world's rich to the world's poor with close and precise attention to detail.' Political complexities, interdependencies and the absence of detailed information limit all such efforts to agree on more productive strategy and tactics for the Third World as a whole.

Some of my own views on certain of the issues discussed are outlined below.

Trade Initiatives

Great hopes have been aroused in the Third World by the experience of the petroleum-producing countries, which seem successfully to have extracted larger revenues from the rich consuming nations. Cannot the OPEC 'model' be duplicated, it is asked, in other commodity markets? On closer examination, demand conditions, the nature of the established oil cartel and other factors do seem to make the petroleum case a very special one. Producer government attempts to manage supplies more rationally, independently of agreements with consuming countries, will nevertheless undoubtedly continue and probably be intensified in such commodities as bauxite (which many rate as the most likely to succeed), copper, tin, iron ore, bananas, coffee, tea and cocoa. Joint action by governments in producing nations may instead take the form of unification of fiscal and other policies, where supply management is not pursued. Some developed countries like Australia and Canada may well co-operate as producers in some of these arrangements. Success in raising and maintaining the less developed countries' 'take' from these commodities is most likely in those cases where demand prospects are buoyant and where there are reasons for believing that the intergovernmental cartel or other agreement can hold together. Unfortunately, it is difficult to be very precise about the factors that influence the latter prospect which, in any event, can be expected to vary from case to case.

In the longer run, there are risks that transnational enterprises facing increasingly hardnosed and co-ordinated suppliers in the less developed countries will respond by developing alternative sources, not the least important of which is, in some cases, the sea-bed (the importance to the Third World of which is therefore greater than might at first be apparent). There may also be retaliatory or countervailing measures taken or pressures exerted by the relevant firms or countries. All things considered, and the 'scares' about world resources scarcity notwithstanding, the medium-term prospects for the terms of trade of nearly all the primary-exporting less developed countries are generally assumed to look quite bleak.

The distribution, as among less developed countries, of the extra income from successes in the field of commodity policy is self-evidently not very equitable. (The catastrophic effect of petroleum and related price increases upon the poorest countries are a lesson not to be forgotten.) Whether the extra income within the gaining countries trickles down to the poor is also an open question and depends upon a variety of other country-specific circumstances. Such international 'successes' are necessary but not sufficient for effectively transferring resources from rich to poor.

An important and relatively unexplored area of commodity policy in which the less developed countries might be able to act more effectively is in wresting control or at least a more equitable share of earnings in processing, marketing and distribution from the hands of transnational enterprises. A very high share of Third World primary-product exports is actually intra-firm trade in which the produce is transferred between establishments which, though in different countries, are controlled by the same transnational enterprise. This creates obvious problems for fiscal control and supply management. The development of local processing and alternative marketing channels can be undertaken at the national level, but any such measures will presumably be still more effective if pursued jointly with other producing countries.

Existing financial institutions, freight rates and infrastructure are biased against South-South trade and favour expansion of trade along North-South lines. There is great scope for Third World production and exchange of less luxurious and more 'appropriate' products, particularly if demand expands. Some argue that the expansion of South-South production and trade requires the imposition of restrictions on North-South trade but it is not evident that such restrictions would necessarily generate the desired effects and they might well produce some undesirable ones. There is general agreement that much can and should be done to remove existing biases in the services which support trade and to stimulate more trade among the less developed countries themselves.

Bargaining with Transnational Enterprises

Just as one may say that the era in which North-South relationships were seen primarily in terms of aid had ended, one can say that the era in which the activities of transnational enterprises in the less developed countries are seen primarily in terms of direct investment is drawing to a close. The old debates as to the benefits and costs of direct foreign investment are being rendered obsolete by the less developed countries' increasing insistence upon decomposing its 'package' of capital, various types of technology, management and marketing into constituent components that can then become the object of independent purchasing decisions and be obtained from a variety of sources. Direct investment, like aid, will continue to flow but only when its advantages have been compared by the recipient country with the available alternative sources of the inputs thereby acquired. More strenuous Third World bargaining with each supplier can certainly safely be predicted.

The less developed countries' capacity to 'shop around' in world input markets depends upon their development of relevant skills, the acquisition of the necessary information and the regularization of channels for the acquisition of recurrent requirements. Their greatly increased resort to borrowing on Eurocurrency markets (see below) in the past few years indicates that one major alternative source of the capital component has effectively been developed. The purchase of technology and management skills frequently involves greater difficulties, however, since the sellers of these inputs typically are monopolists or oligopolists. Access to restricted foreign markets is also likely to be a matter of especially difficult bargaining. Most less developed countries do now seem to recognise, however, that bargaining power is of the essence in relationships of whatever type with transnational enterprises. Exchanges of information and unified policies among host countries, such as are practised by the members of the Andean Pact, clearly raise their bargaining strength and therefore are likely to improve the terms of whatever deals are struck with foreign enterprises. The experiences of the Andean Pact can and should be transmitted to other parts of the less developed world both through direct exchanges and through the further elaboration of 'codes of conduct' for foreign investors and technology suppliers which, though based on one region's problems, can be applied, at least for preliminary purposes, in another.

It is easy to make mistakes or to be misled by superficial appearances in this area of policy. Nationalisation of foreign enterprises for the sake of acquiring greater national earnings and control can leave the nationalizer with neither, if his expertise and bargaining power are insufficient to prevent the granting of major concessions on management and technology contracts. Bargaining with foreign enterprises is extremely complex and difficult, and one must be totally clear as to one's true objectives. For example, the acquisition of 51 per cent of a firm's equity makes very little economic sense if the object is to secure control of its activities. One can normally gain the necessary information for effective control at considerably smaller cost. On the other hand, if there are cogent economic grounds for nationalization —usually in resource-exporting sectors or on 'the commanding heights' — it may well make more sense to acquire 100 per cent ownership in the relevant firms.

Similarly, requirements for local private participation in the ownership of foreign enterprises may actually increase the long-run strength of the transnational enterprises in the relevant country vis-a-vis the government and the entire society by creating a powerful set of allies or, more broadly, a dependent rentier class. Real national bargaining power may thus be reduced by measures undertaken under the banner of economic nationalism. Less dramatic and lower-profile measures which are implemented on an ongoing daily basis may be more effective in regulating the activities of the transnational enterprises.

More from the International Financial System

The less developed countries have expressed themselves vigorously and in a unified fashion on the subject of international monetary reform since they formed themselves into the Group of 24 (eight central bankers from each of the relevant continents). Their preferences for an SDR aid link taking the form of an altered distribution formula governing future SDR allocations, and for fixed exchange rates among the currencies of the major powers, are soundly based. While these preferences may not be obviously reflected in the eventual reform of the IMF they are certainly being employed as bargaining counters in the continuing debates, for the less developed countries as a group possess enough votes to exert a formal veto against an 'unsatisfactory' IMF reform. If the status of the new SDR can be preserved and built up as the basic reserve asset in the international monetary system, there will be significant advantages for the Third World in terms of easier reserve management and relief from pressure to join the currency area of one of the major powers. It need hardly be added that any means by which the newly acquired Arab balances could be onlent, preferably at subsidised interest rates, could be of enormous significance to the non-oil-producing poor countries.

In the meantime, although the data are by no means comprehensive, it is clear that the less developed countries are relying, to an unprecedented extent, upon borrowing on Eurocurrency markets. Whereas national capital markets, particularly in Europe, contain all manner of restrictions which limit the potential for borrowing by less developed countries, the unregulated Eurocurrency markets have emerged as an important source of commercial capital, either competitive with or complementary to suppliers' credits, transnational enterprises and official development agencies. While effective interest rates for the less developed country borrowers are still very high on these markets, this alternative source of capital increases the degrees of freedom available to a great many poor countries as they shop for capital and other inputs.

For the poorest countries—those for whom Eurocurrency interest rates are prohibitively high-grant assistance is really the only reasonable means of acquiring adequate capital from abroad, as it should have been from the beginning of the aid era. For the majority, however, provided that capacity to service the debt rises at an adequate rate, there is no reason not to continue to expand foreign borrowing even in cases where the accumulated debt already appears quite heavy. The rapid inflation of recent years has provided less developed borrowers with a significant windfall gain by reducing the real burden of their international debt.

There remains, however, a considerable debt 'mess' left over from the mistakes of the past two decades, which overhangs the international financial scene. It would be in the general international interest, as well as that of the relevant debtor countries, if a way could be found for writing this 'bad debt' off and beginning again. Now that portfolio capital is again flowing in large amounts into the less developed countries, a rash of unilateral defaults could be very harmful in their effects for future borrowing potential. It might be possible, however, to construct a set of principles or a 'code' outlining the circumstances in which default could 'honourably' be undertaken without fear of penalty, just as bankruptcy can, in some circumstances, be declared in the private sector. Such a 'code' would involve the international lenders' participation in developing risks for the first time. There exists an obvious rationale, for example, for writing off loans which should have been grants and were clearly for consumption purposes—food and disaster relief loans that were offered for projects which subsequently turned sour and that portion of loans' principal which was absorbed in what is now universally recognized as having been the excess costs of tying. Those less developed countries for whom debt relief would be most important might well devote some energies to the development of a 'default code' for collective introduction. In putting forward these proposals for debt relief (rather than rescheduling, which merely postpones the day of judgement), one must bear in mind the likelihood that any resulting gains to debtor countries will take the form of better-quality resource flows rather than increased quantity since debt relief will be subtracted from unchanged total development assistance budgets.

New Institutions

In virtually every field one examines it is clear that the less developed countries stand to gain through close co-operation and joint bargaining. It is difficult to generalize about what it is that enables groups of countries to stand together for different occasions. How, for instance, did the African and Caribbean associates and associables manage, against all odds, to present such a coherent and coordinated position to the divided EEC? What is it that provided that extra element of co-operation in OPEC and the Andean Pact?

On the other hand, it is also clear that, other things being equal, Third World joint initiatives are most successful when they are relatively narrowly focussed. The UN agencies no doubt have roles to perform in the elaboration of the psychology and politics of the 'new mood,' and the provision of opportunities for general discussion and research support, but they are too comprehensive in membership and aspiration for very effective action of the type now under discussion. The institutional instruments of real change are more likely to be functionally or geographically restricted, and therefore much smaller, less given to rhetoric and posturing, and much better at giving 'close and precise attention to detail.' Whether the 'new mood' can be translated into significant new power for Third World countries will depend, above all, upon the successes of these newer and smaller multinational institutions. Upon them, and more accurately, upon their member governments, will rest the major responsibility for ensuring that the 'new mood' results in such more than a mere renegotiation in the terms of their peoples' poverty and dependence.

(By Courtesy of Dag Hammarskjold Centre's Development Dialogue)

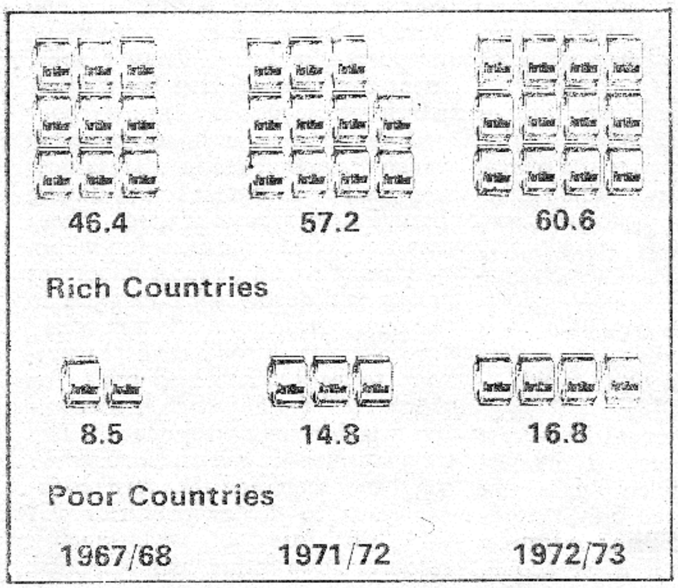
THE GAPS BETWEEN RICH AND POOR

	GNP per capita in U. S. dollars		
		1950	1975 estimate
THE RICH	United States	2,300	3,550
	France	750	1,750
	West Germany	600	2,900
	Soviet Union	400	1,625
THE POOR	China	50	190
	Thailand	85	135
	Pakistan	70	75
	India	70	85

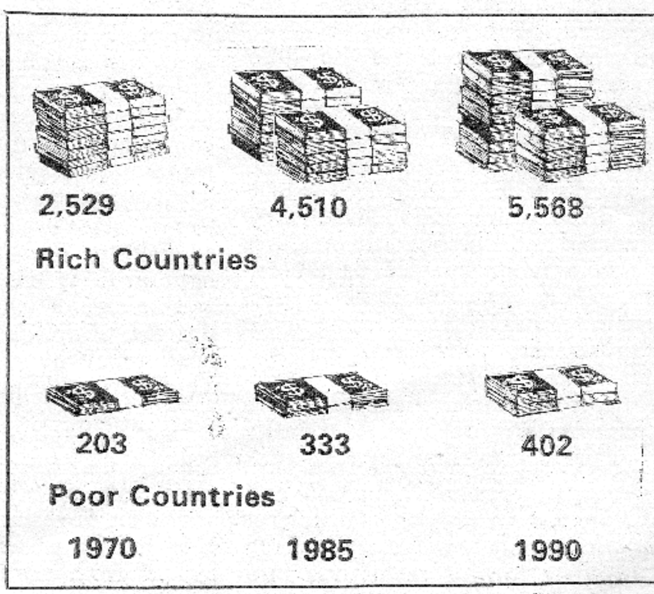
Estimates of the World Bank for Sri Lanka GNP per capita in 1969 is $ 190

	Different Nations' share of the World's GNP in 1975 (estimated)	
THE RICH	United States	33
	Soviet Union	18
	West Germany	7
THE POOR	China	7
	Thailand	0.2%
	Chile	0.2%

(Source: Russet and Alker)



Fertilizer consumption (in million tons per year)



Estimated difference in average wealth in dollars.

Perspectives on Land Reform

Nimal Sanderatne

Dr. Nimal Sanderatne is a Senior Economist at the Central Bank of Ceylon and his specialised field of study has been the political economy of Asian agrarian reform. He has also contributed several articles to journals such as the 'South Asian Review', Indian Journal of Agricultural Economics', 'Review of Agricultural Economics of Malaysia' and' Development Digest'.

Land reform is an essential pre-requisite to the economic development of an agriculturally under-developed country. The historical experiences of several countries have demonstrated that a land reform has preceded their economic development. Land reform is a fundamental change in the land tenure structure of a country necessitating the redistribution in the ownership and possession of lands ; changes in the methods of farm management and exploitation under different systems of farming, and changes in farm size structure.

Land Reform and Agrarian Reform

Early discussion of land reform tended to view it as different to agrarian reform but the experience of land reforms in many countries has brought out the importance of supporting services such as credit, the provision of extension facilities, channels for marketing produce, and the availability of agricultural inputs. To be of significance to the socio-economic development of a country land reform must therefore be viewed as the broader process of agrarian reform. Land redistribution alone is inadequate. Agrarian reform must be viewed within the socio-economic context of particular countries ; and also as fundamental changes in the methods of owning and cultivating land so as to promote the overall requirements of socio-economic development.

However, a basic change in the agrarian structure is difficult to achieve owing to several reasons. Land is the predominant or strategic resource in a pre-industrial society. Land ownership is not merely a source of economic wealth but also a source of social status and political power. When one possesses land, all else is added unto him. Without land one is deprived of access to many opportunities for improvement. Therefore, changes in the rights to the possession and control of land have a fundamental, revolutionary, and irreversible bearing on the relative strengths of the different classes and groups of a society. Land reforms are therefore generally resisted by those having economic wealth and political power. For this reason land reforms have often been enacted and implemented after a drastic change in the political structure or by external pressures.

What are the objectives of a land reform? The objectives of a land reform could vary considerably. This is especially so as a land reform is often a response to political pressures and could have political objectives such as penalising a particular class or group of persons ; legitimizing a new regime ; or dampening a revolutionary or insurgent potential. The social and economic goals of a reform are those of increasing agricultural production, improving wealth and income distribution and increasing employment opportunities on the land.

Production

Increased agricultural production is a pre-requisite to economic development of agriculture based economies. It is therefore essential to view land reform as a measure to increase agricultural productivity. It is, however, true that a land reform has often led to a drop in agricultural productivity owing to several reasons. The existing land tenure structure has servicing systems to meet input needs such as the provision of credit and fertilizer and their own processing and marketing channels. The landed interests, who continue to wield considerable economic and political power, attempt to discredit the reform by withholding resources. Where the existing servicing structures are the chief available means such withholding is a significant deprivation to the reformed structures. Until new supporting services are developed, the land reform lands tend to be denied very necessary services. Often the reformed tenure structures are themselves experimental and have internal problems of management. A period of lower agricultural production is, therefore, a common experience in countries which have undergone a land reform. This again underscores the need for developing supporting services ; as such a drop in agricultural production cannot be borne by countries with low levels of living and low agricultural productivity levels.

Equity in Distribution

Since land is the most important economic resource, the pattern of its ownership and the conditions on which the land is cultivated have an important bearing on income distribution. If, however, a land reform merely redistributes land more equitably and all other conditions remain the same, there is a redistribution only to the extent that the ownership structure of the basic income generating resource has been altered. Such a change is at best merely a redistribution of existing incomes and the importance of land reforms as a measure of income redistribution is limited. If, on the other hand, the new incentives coupled with adequate supporting services leads to increased productivity then a more cumulative impact on income redistribution can be attained. Part of this cumulative income redistribution would arise from the increased income of lower income groups leading to a change in consumption patterns in favour of basic needs produced at the local level or at least within the country. These increased demands could lead to an expansion of village level industries which utilise local materials and are more labour intensive.

Employment and Intensive Land Use

The question then arises as to the means by which such goals should be attained. Increased agricultural production *per se* could be attained by various means. But the strategies used must be consistent with the resource endowments of the country as well as the other goals that must be attained. In a labour surplus and a land and capital scarce economy such as ours an intensified use of land and capital and techniques which are highly labour absorptive should be adopted. In other words the tenure structure must be changed so as to provide an alternate structure which increases agricultural production by a more intensive use of land. Such intensification must be attained by a greater use of labour on the land. This in turn would result in the mitigation of the unemployment problem.

One of the major gains in a land reform arises where land which has not hitherto been agriculturally exploited is redistributed to agricultural workers. In the case of large land owners with high income levels, cultivation of these lands may not appear worth the effort especially considering the net disposable income they derive after payment of taxes. They, therefore, tend to retain such land as capital assets rather than as sources of income. The cultivation of such land could provide employment and increase agricultural output and incomes. However, one must be careful to note that all uncultivated land is not necessarily cultivable and some of these lands may have remained uncultivated precisely due to problems of cultivating such lands.

Another way in which a reform could contribute towards increasing agricultural production, employment and incomes is by inter-cultivating lands under a single crop with several others. This too may not have been feasible before a reform owing to the reasons adduced for not cultivating lands as well as due to the unfeasibility of such cultivation under large scale management. Small scale cultivation could lend itself more easily to intensive exploitation with several crops. Apart from scale considerations, a land reform could plan such agricultural development by redistributing land with the understanding that these lands are exploited in this manner.

SRI LANKA'S LAND REFORM

The Land Reform Law of 1972 was the first attempt to alter the land tenure structure of the country by the redistribution of a significant extent of privately owned agricultural land. The law placed a 50 acre ceiling on the individual ownership of agricultural land, except in the case of paddy land, where the ceiling was 25 acres. Agricultural lands owned by public companies were exempted.

Expropriation

With this ceiling a total extent of 559,377 acres were expropriated. The breakdown of these lands by type of land use is given in Table 1.

Table 1 — Land Expropriated by Type of Land Use

Type of land Use	Area in Acres	Percent of Expropriated land
Jungle Patna & uncultivated and abandoned tea & rubber	183,958	33
Tea	135,760	24
Coconut	115,350	21
Rubber	82,944	15
Paddy	16,270	3
Other Crops	25,095	4
Total	559,377	100

About one third of the land area expropriated is uncultivated. A significant amount of increases in agricultural production and employment is likely to result from the exploitation of these hitherto uncultivated land. No doubt some of these lands are not cultivable and would have to remain so. Yet to the extent that the 184,000 acres are cultivated this should result in a net gain in production and employment.

In the case of tea lands the attainment of the objectives of increased employment and productivity are limited on well maintained lands as these absorb about 1.1 workers per acre and maintain a higher productivity per acre. However, a high proportion of tea lands that have been expropriated are likely not as productive and a more systematic cultivation of these lands could increase employment and production.

Coconut lands probably have the highest potential for increasing agricultural production and employment. This possibility arises out of the fact that several crops could be interplanted with coconut and dairy cattle established on these lands.

Management Forms

Apart from the type of land use of the pre-reform lands, the nature of post-reform management of these lands have an important bearing on the attainment of the reform objectives. The method of alienation of lands by organisational method is given in Table 2. However, this classification is inadequate for a discussion of the new forms of tenure as these farm lands could be transferred to other forms and the form of tenure of a substantial proportion of the lands cannot be gauged from this classification. These uncertainties apply particularly to lands alienated to the Divisional Land Reform Authorities and those under the Land Commissioner. Although these categories account for over half of the total lands expropriated a high proportion of these lands are likely to be hitherto uncultivated lands.

TABLE 2

Lands Alienated by Institutions & Management

Institutions or Management Method	Area in Acres	Percent of Total
Divisional Land Reform Authorities ...	177,719	32
Land Commissioner	111,375	20
USAWASAMA (Udarata Samupakara Wathu Sanwardhana Mandalaya) ...	87,235	16
Multi-Purpose Co-operative Societies ...	48,143	9
Cooperative Settlements (Samupakara Janawasas)	38,704	7
State Plantations Corporation	31,791	6
Special Cooperative Organisations ...	19,750	3
Government Boards and Institutes ...	8,310	1
Individual Villagers	13,833	2
Others	22,517	4
Total	559,377	100

Estate land taken over by the State Plantations Corporation and (USAWASAMA) and any estates continued to be maintained as large units and operated on the same basis as privately owned estates, are likely to change their productivity only to the extent that the new management is more or less efficient than the previous management. Such transference of ownership without a change in organisational forms is likely to change its productivity owing to differences in the management capacities. A sizeable extent of the tea and rubber lands previously held in estates is likely to fall into this category. A determination as to whether the transfer of ownership and management from the private sector to the public sector can be made only after a lapse of a few years and the production statistics of the estates are examined over several years under both forms of ownership.

The experience of the State Plantations Corporation in managing estates is likely to be of use in operating the new estates. The State Plantations Corporation has however, obtained only 31,791 acres. The other management organizations entrusted with estates may not necessarily possess the abilities to handle the estates. The discontinuance of former management personnel with planting experience on estates could compound the problem. The State Plantations Corporation itself may be overstretching its capacities. While from the point of view of maintaining productivity the estate form of management may be suited, the continuation of the estate system implies a lack of reform in land tenure conditions. Considerable amount of re-thinking will be necessary to devise a new system of organization which democratises the ownership and management of these lands while maintaining high productivity levels.

Collectives

New forms of tenure and agricultural organization are being developed under the reform. This is particularly so with respect to the development of cooperative or collective farms. About 38,000 acres have so far been alienated for Samupakara Janawasas. Some other cooperative organizations are also being established. Most such lands are developed lands.

Cooperative farms have the advantage of a greater rationalization of labour resources and the economies of scale in certain farming operations. These advantages are likely to be particularly relevant for several new crops requiring standardised practices. Such organization may also be more suited for developing intensive farming units with agro-based industries. But cooperative farms pose several problems as well. A major need is a cooperative spirit or collective consciousness which is generally induced by ideological commitments or economic conditions necessitating continued operation on a group basis. This requires to be reinforced by skilful managerial principles which ensure that rewards are commensurate with labour inputs. A cooperative farming enterprise runs the risk of conflicts among the partners if rewards are not related to their input of labour. Such conflicts affect the productive capacity of the farm.

Family Farms

The alienation of land on family sized holdings has several advantages. Once the supporting services of extension, credit, marketing, and the availability of inputs are assured, the individual farmers could be relied upon to take the decisions and expend energies to maximise production. There would be no need to police farming operations as it would be to the advantage of the farmer himself to allocate resources efficiently. In a family farming operation labour utilization would be intensified as it is to the advantage of the farm family to expend extra labour on an operation which brings in a positive net return, unlike in the case of wage labour where the return from the output must be more than the cost of wages. It is for this reason that the smaller paddy holdings adopt labour intensive cultivation practices like weeding and transplanting more than the larger holdings.

For these reasons there is a strong case for alienation of land in small family sized units. The twin considerations in determining the size of the holding should be an area cultivable with family labour supplemented at peak periods with communal farming operations, and the possibility of obtaining an adequate income for the family. But it must be stressed that a family farm system is likely to succeed only where the supporting services are adequately provided. This is clearly demonstrated in the colonization schemes, where a satisfactory tenure condition alone has failed to ensure a high yielding agriculture. On the other hand the special projects inaugurated on some colonization areas in 1967 have displayed impressive results.

Conclusion

The Land Reform Law of 1972 although unprecedented as a measure to curb private holdings of land, is limited in its impact as a basic and radical change in the tenure structure of the country. The exclusion of the large estates under company ownership and the maintenance of other extents taken over in the same estate type of organization, are mainly responsible for the limited impact. The reform also hardly affects the tenancy problem on paddy lands. However, it provides the country with an opportunity to evolve new types of tenure suited to different types of farming. It is also likely that this reform will release further pressures for a more radical change in the tenure structure encompassing the estate sector.

The smaller sized holdings on some lands, the larger number of persons likely to be employed on cooperative settlements than under previous private ownership ; the inter-cropping on coconut lands ; and the cultivation of hitherto uncultivated lands ; are all likely to increase the intensity of land use and increase employment and incomes from land. The development of suitable organizational forms to manage the new tenure forms and institutional structures to service agriculture and provide the necessary inputs will be an important determinant of the success of the reform. However, agricultural production is likely to have been adversely affected by the reform owing to the uncertainty in tenure of the statutorily declared lands and the neglect by previous owners and the disruption of existing farm organization.

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